THE CHINA WEEKLY REVIEW

密勒氏評論報

A Weekly Newspaper Established In 1917

May 15, 1948

THE TRADE PICTURE

A REPORT

China's Agriculture

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Bi-Monthly COL Indices Necessary

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VOLUME 109 PRICE CNC$100,000 NUMBER 11

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LETTERS From The People

Comments from readers on current topics are cordially invited: their opinions, however, do not necessarily represent the views of The China Weekly Review.

Needs Birth Control

To The Editor:

I entirely agree with your opinion expressed in the April 17 issue of the *Review* about the importance of birth control in China.

The population problem of this country really requires an immediate solution. Thanks to our military and political leaders, our population has been and is being reduced on a large scale by killing one another. But this, certainly, is not a solution to our problem.

The US is said to have only one-fourth the population of China, but her food production as well as various industrial products are many times that of China. That is why most Chinese people are now on the verge of starvation and lead a dog's life.

I think the only way to solve the food problem of this country is to control the birth rate. So long as China's population problem is not solved, the prevalent slogans of raising our living standards, improving our sanitary conditions and wiping out illiteracy will be only, as they have been, words on paper.

C. C. HO.

Hwaiyuan, Anhwei,
April 30, 1948.

More Competent

To The Editor:

I cannot but get angry at the National Assembly which is now reaching the end of its session.

Disregarding the fact that all the representatives were illegally elected, or, frankly speaking, nominated and assigned by various parties, still worse is the realization that they cannot represent us lao pai hsing who are now suffering from starvation and all the pains which ever existed in the world.

They spend billions of dollars every day but what they are doing is electing the so-called "Flower of NA" or "Lark of NA" and enjoying themselves, instead of discussing how to save the people from sufferings, how to speed reconstruction work, and how to pave the way for peace.

As a senior middle school student, I, of course, possess no more knowledge than those sitting under the vault of the National Assembly Hall, but I dare say that I am much more enthusiastic, zealous and competent in doing something for the welfare of the people than those so-called people's delegates.

In view of this, I believe that no peace, no democracy and nothing beneficial to the people can be attained under our new constitution.

L. S. Y.

Kwanhsien, Szechuen,
April 24, 1948.

By Which Law

To The Editor:

I wonder when the Civil War will come to an end. Since my native town, Tehchow, in Shantung, was occupied by the Communists, all my family's property has been taken away and my folks were driven out of the town. My mother and grandmother, 60 and 80 years old respectively, have suffered again and

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Index for May 15, 1948

Editorial Paragraphs

World Trade Week 299
Flight Of Capital 299

Special Articles

The China Trade Picture 302
China's Suicidal Factors At Work ..... *A Midnight Cry* 318
The American Economy ..... *A 20th Century Fund Study* 322
An Eye For An Eye ..... *Jacques Decaux* 334
Contributions Of Chinese In Cuba ..... *King-chau Mui* 336
China's Agriculture: The Basic Problem ..... *D. Y. Lanne* 339
Council For Promotion Of International Trade 343
CRM's New Methods Bear Fruit ..... *Jack James* 345
A View On Bank Amalgamation ..... *K. S. Tehans* 347
Twice Monthly C.O.L. Indices Necessary ..... *J. R. Kaim* 348
The Week's Business 349

Departments

Letters From The People 293
25 Years Ago 301
News Of The Week 351
What US Papers Say 354
What Chinese Papers Say 357
The Review's English Lesson XXXI 358

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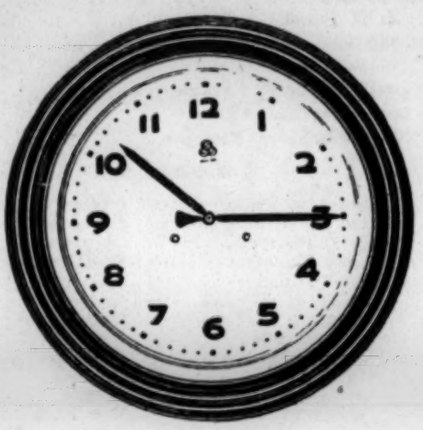

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again. I do not know if they are still alive as I have not heard from them for two years.

Though my family is quite rich, our wealth was accumulated by the hard work of my ancestors, not by robbing others, I do not understand by which law in the world my family can be found guilty. As for myself, I have great sympathy with the poor and would like to give away all my property to them through peaceful means.

I must declare here that I am not a KMT member, though I serve in the Nationalist army.

H. P. T.

Sian, Shensi,
April 28, 1948.

Can Stand No Longer

To The Editor:

With the "Bandit Suppression Campaign" and the forced suspension of several liberal progressive magazines and papers such as *Wen Tsuei* and *Wen Hwei Pao*, we Chinese lao pai hsing have been oppressed more than ever. No one can utter anything he wants to say without having a "red cap" put on his head.

The National Assembly now convening in Nanking is nothing but a disgraceful performance. While hundreds and thousands of poor people are suffering from the Civil War, the so-called people's delegates are spending dollars in luxury..

We people have already suffered enough, both spiritually and materially; we can stand no longer. We must rise bravely to save ourselves and China which is now on the verge of destruction.

WU MO-SHIN.

Chungking, Szechuen,
April 25, 1948.

Like Pigs

To The Editor:

I am very impressed by your editorial "Austerity Needed" and am very angry at our government authorities. What are they doing? The so-called people's delegates are either eating or drinking or hissing and jeering one another in the National Assembly, while hundreds and thousands of miserable people are being killed in the battlefield and dying from starvation.

When Yuan Shih Kai called the Parliament meeting in the early years of the Republic of China, Dr. Sun Yat-sen said, "The members of our Parliament just sold themselves to Yuan Shih Kai for money like pigs. They are so mean and rotten." Later in 1936, Wu Chih-hui, a veteran KMT member, called the election of delegates to the National Assembly "a catastrophe." But who are our present people's delegates? They are just robbers, thieves and rascals. They are the nominated candidates. They won their elections by way of blackmail or bribery. No electorate voted for them but for their money.

China needs good administrators of noble quality who can render good service to the country. We do not need those men who only know how to cheat people.

I suggest we send all the so-called delegates back to their native districts and confiscate their properties for military use as well as for our economic recovery. In doing so, we do not need to borrow much money from the US.

C. N.

Chengtu, Szechuen,
May 2, 1948.

Student Body Wanted

To The Editor:

I am a student of Fuh Tan University. Up to now, we students still have not a student body representing the majority

of the students for the improvement of public welfare. For cooperation between the students and the school authorities, we need such an association. Without it, the prosperity of the school can never be expected.

A few days ago, our schoolmate, Mr. Yang, was illegally searched in his dormitory by some secret agents. At a meeting held by hundreds of students, we made the following resolutions: to demand the school authorities to protest immediately to the local authorities for the illegal search, to demand the restoration of our students' self-governing body representing the majority of the students and to stage a strike for one day. For right and justice, for students' safety and the prosperity of the school, we urgently demand a real students' association.

R. S.

Shanghai,
May 1, 1948.

Duty-Bound

To The Editor:

Being liberal and enlightening, your magazine appeals to me. I feel more pleased with the fact that several letters published in it were written by a student of mine named Tu Chang-chih. I know he has been benefited by reading your forceful and impartial editorials. By wielding your pen, you have unconsciously done him more good than I did while teaching him. I think I am duty-bound to show my deep gratitude to you and this appreciation may also serve to encourage my ex-student to pay more attention to studying English.

CHAO LIAN CHENG.

Linli, Hunan,
April 24, 1948.

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Life Should Be Saved

To The Editor:

Recently so many people have been killed by street cars as well as trains in both Shanghai and Hangchow, it would seem as if life were worth nothing.

But life should be protected, and our Government should pay more attention to this problem. I suggest that the ignorant people be taught to realize the danger of walking in the middle of the road and of running in front of moving cars, that the roads be marked so that drivers can see where the danger lies and where care should be taken, and I further suggest that only good drivers be permitted to drive. I believe many lives will be saved if my proposals are followed.

TEH-YUN CHEN.

Hangchow, Chekiang,
May 6, 1948.

Lead China Into Hell

To The Editor:

Dr. Chow Ken Sen, president of the National Wuhan University, in his essay which appeared in the January 11 issue of the *Independent Current Opinions' Association*, said that the American version of the German-Japanese Peace Treaties is not primarily intended to prevent the resurgence of the two countries but to rear them and use them as a bastion against the Soviet Union. Dr. Hu Shih differed from Dr. Chow in this opinion. In his letter to Dr. Chow, he defended American policy toward Germany and Japan and attributed all faults to the Soviet Union which he described as "a dreadful aggressive force."

Dr. Chien Keh Hsin in his "Comment On One School of Thought On The International Situation of Today" in the March 6 issue of the *Observer*, a Chinese Weekly, made a detailed analysis of Dr. Hu's views on American policy toward Germany and Japan and presented facts to show the latter's foolishness, his officialdom-crazy trust in American propaganda and his devil-stricken support of the indefensible American stand.

I think Dr. Hu Shih's amateurish political opinion, if not corrected, will lead China into hell. Political savvy is both inborn and acquired, otherwise, "a jack-of-all-trades is a trade of none." World peace depends upon the supersagacity of the rulers of the world. America might win World War III, if it does come, but this war would make World War IV inevitable and America's defeat in the latter would be inevitable too, for America's economic imperialism would be 100 percent pure and simple then. There is no wisdom in China's pioneering the anti-communism crusade this time, because she would not be able to escape so easily the brunt of World War III as she did of World War II. It is clear that both a US-USSR war and a US-USSR compromise would be disastrously costly to China so long as she refuses to learn to stand on her own legs.

All the up-to-the-minute facts have proved that both Russian aggressions and American economic nationalism are fraught with dreadful eventualities. The US-USSR present impasse is absolutely uncalled for because there has never been any traditional US-USSR animosity previously but only Anglo-Russian rivalry, which has existed for a century and has been more acutely sharpened since VJ Day. Why should America insist on becoming the British cat's paw? Why should she violate her Monroe Doctrine and "the basic American concept that military power is and must remain subordinate to civilian authority?" America is only pushing the whole proletariat world into Russia's arms—lock, stock and barrel.

CHINESE JOHN THE BAPTIST.

Chengtu, Szechuen,
May 4, 1948.

Students' Duty

To The Editor:

Students of today are the pillars of society and masters of the nation of tomorrow. The great responsibility of rescuing our country is set upon our shoulders. We should not flinch, nor should we shirk. The prospects of our country depend upon whether or not we study hard.

But how can we accomplish our studies under the present chaotic situation?

First, we should avoid getting in contact with any circles which will disturb or affect our studies. We should bury ourselves in books, as we are only boys and girls, not old enough to participate in or interfere with social activities. Being students, our duty is to study.

Secondly, we should have confidence in the prospects of our country and be optimistic about everything we come across. In doing so, we are able to study in school peacefully and steadily.

Thirdly, we must keep our daily life busy; for labor is the source of happiness, while leisure is the cause of sorrow. We can neglect and even forget all the bad news about the disturbing situation, but we must devote ourselves to study. Cervantes accomplished his "Don Quixote" under disturbing circumstances; Tseng Kuo Fan never forgot to study at the front.

Lastly, we must read those books which are not only useful but also make us steady. We should not read blindly without choice.

HSU SHIH-CHEN.

Kaifeng, Honan,
April 20, 1948.

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Few Qualified

To The Editor:

I read, with great pleasure, Professor Wang's "Should The Average Chinese Student Study English" in the April 10 issue of the *Review*, for the author has said what I want to say. Because of the lack of persons good in English and the lower payment a teacher gets, middle school authorities here have been having difficulty in engaging qualified teachers of English.

Being the principal of a middle school, I am greatly troubled by this problem. Now we have three teachers of English in our school. They are all very poor in English conversation, to say nothing of their correct pronounciation. However, I cannot discharge them, for there are few candidates qualified to fill their places. If Professor Wang were in my position, what would he do?

WILLIAM TING.

Chuanchou, Fukien,
May 1, 1948.

Along Racket Lines

To The Editor:

Most Chinese educational institutions are being run along racket lines and students there are being victimized.

One of the local institutions of higher learning prescribes that every freshman has to study German at least for one year under some of the so-called professors whose German is not good at all. Among them there are a few Germans, but they are far from well-educated.

However, these professors of German think highly of themselves. One of them, said to be a coolie in a boat before World War II, styles himself a German-returned student and an authority on German, while another, who had merely one trip to Germany, does the same. As anyone, no matter how unqualified he is, can easily get the position of a professor, it is no wonder that professorship in China is no longer respected and highly esteemed.

On behalf of education in China, I earnestly hope that all genuine scholars and students will, with enthusiasm, expose such quacks in our institutions of higher education.

S. L. H.

Shanghai,
May 9, 1948.

Awaken!

To The Editor:

After reading your editorial "Watch The Japs VIII" in the March 20 issue of the *Review*, I feel I have acquired much knowledge about Japan. It is true that General Douglas MacArthur is building Japan as a bulwark against the Soviet Union and that under the rule of General MacArthur, Japan has made some success in recovering her military force. With the present US policy towards Japan, no one can be assured of lasting world peace.

For the future generation, as well as human culture, I sincerely hope that the warmongering elements in the US and other nations will be awakened and will correct their wrong policy of supporting Japan as a bulwark in the Far East.

L. L. C.

Foochow, Fukien,
April 28, 1948.

Mayor Chiang's Report

To The Editor:

Mayor Chiang Quen, at a press conference on April 10, gave a report on Changsha Municipal affairs. He said that the budget for the Changsha Municipal Government in 1948 is estimated at CNC$118,485,250,000 and that, unless the income tax and contributions total CNC$8,000,000,000 per month on an average, this Government will not be able to meet its fixed expenditure. Spring contributions this year have not yet been collected; the slaughter tax, feast tax and musical tax of February totaled CNC$230,000,000 and will be increased to a little over CNC$3,600,000,000 in March. The actual sum of income tax collected in the past two months, however, was far behind its fixed figure.

As to the "cheap rice" problem, mayor Chiang explained how he tried to overcome difficulties in borrowing 100,000 bushels of rice from local rice merchants in the beginning and started the "cheap rice" service on February 17 this year. From that time on, 247,539 bushels of rice have been sold at cheap price and 126,728 persons have been benefitted.

The dump cleaning work was started on March 12, Mayor Chiang added. About 3,000 tons of rubbish have already taken away from the streets as well as from open places in Changsha and this work, it is planned, will be finished in April.

The mayor further related that street repair work will also be finished in April and that he has raised the labors' wages, collected 239 conscripts for the Government and prohibited the circulation of hard cash since he was installed in his new office on February 16, 1948.

NING L. TENG.

Changsha, Hunan,
April 26, 1948.

Hard Times In Kaifeng

To The Editor:

....During the last few days about 20 miles west from Chengchow drastic battles have taken place. Kaifeng has become horrible.

On the whirlwind of war, an emer-

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gency measure was proclaimed on April 12 by the Kaifeng Garrison Headquarters that in order to intensify the defense against the enemy's attack, all the houses in every suburb should be destroyed and all the inhabitants should remove into the city within a week.

All the citizens of four suburbs gathered at the gate of the Provincial Government petitioning for the mercy of Governor Liu.....Every one was filled with untold pains....At last, these tearful masses were driven away and dispersed by four armed soldiers. The other morning when I passed by the eastern outskirts of the city, all the inhabitants, superintended by policemen with pistols in their hands, were destroying their lodgings, their only support, with their own hands.

It is an undeniable fact that all the people, including the government authorities and the high officers in Kaifeng, have been frightened with the terror of the Reds since the fall of Loyang. A week ago, while the Communist troops were menacing Chengchow, the wealthy families here hurried for Nanking or Shanghai by airplane.

The danger is now over—the Reds have withdrawn westward. We have passed this critical moment, and business has been restored.

In view of the formal situation, it seems as if Kaifeng were in safety, but a considerable crisis looms. The whole province of Honan, about 111 districts in all, has almost been captured by the CP except Kaifeng, Chengchow, and Sienshiang.

Recently, owing to the raging of the CP, the lao-pai-hsing in the so-called liberated area are making their escape for life. Therefore, the population of Kaifeng has increased more than two times. Every nook and corner in this city is filled with refugees.

Besides, schools in the Communist-held districts have been dispersed. According to reliable estimates, about 25,000 students and some 5,000 teachers at least have fled here. Homeless and penniless, they have to tighten their belts to endure what human beings have never before suffered.

The public servants cannot support the lowest standard of living; more than this, the workmen cannot maintain their daily living with scanty wages; and worst of all, about 80,000 people have become unemployed. What if the foodstuffs should be exhausted?

Both parties fight under the pretext of protecting the people, but, at last, the protected will become their victims. The 20th century is an age of the people: why should the authorities of both parties offer us in sacrifice?

HSU SHIH CHEN.

Kaifeng, Honan,
May 5, 1948.

Scientific Aid Urgent

To The Editor:

I am much rejoiced at the news that Mr. Bullitt, ardent proposer of American aid to China, is again visiting this country. I wish to impress him and all other friends of China that besides the US$570,000,000 of American foodstuff, raw materials, and manufactured goods which America is planning to sell to China in company with military aid, books, apparatus and many kinds of scientific instruments are most urgently needed by the Chinese people, along with an amount of foreign exchange to afford Chinese students to study abroad.

Economic and military aid without scientific aid will surely prove an ultimate failure.

HINNOM TING-KUEI LIE.

Nanking,
May 8, 1948.

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World Trade Week

TWENTY-TWO years ago a week was set aside by Los Angeles businessmen during which the importance of world trade was stressed to the community. Gradually the movement to devote one week each year to such an observance grew until in 1935 the United States Chamber of Commerce, a non-official, voluntary association of businessmen, began sponsoring World Trade Week each spring in virtually every town in the United States. In foreign countries where there are American businessmen, the week is also observed.

The purpose of this observance is simple. It is to acquaint the American people—especially the little man who is subject to various racial and environmental prejudices and who too often is opposed to any sort of intercourse between the United States and other countries—with the importance of trade between nations. Speeches, editorials, window displays and even movies are used in American towns during this week to stimulate public interest and to explain in simple terms the importance to the United States and the other countries of the world of free international trade.

While it is unnecessary to dwell at any great length on the values of expanding trade since many of our readers here in Shanghai and in various China outports are quite familiar with the subject, a few thoughts may be worth noting.

First, it is important—and encouraging—to all of us to see each year's World Trade Week in America grow in size and in general interest. A great deal depends upon the temper of the American people. Any return to isolation could well spell doom for many peoples in many countries. Certainly world prosperity cannot be achieved unless the factories of America are busy producing for the world and also buying raw and finished materials from the world. As we pointed out in a recent editorial that while the United States comprises only about seven percent of the world's land surface and while its population accounts for only about seven percent of the world's population, its resources amount to about 40 percent of the world's total. The attitude of the American people, in the light of this, becomes of great importance to the peoples of other nations. It is indeed encouraging to see them taking an increasingly active interest in world trade.

From another point it is also heartening to see an important group of people favoring increased trade during these days when so many governments seem committed to a policy of placing restrictions in the way of the free flow of goods. In China, we see many crippling restrictions, some of which are necessary and some of which are rather puzzling. In Europe we see the erection of an "iron curtain" by both the East and West and statements made which are obviously ridiculuous from an economic point of view. The under-industrialized East will not supply food to the hungry West, while the industrialized West is not willing to supply machinery to the backward East.

* * *

A FEW of the items prepared by the US National Chamber of Commerce for use by local chambers throughout America in explaining the value and need of world trade may not be amiss to an audience in China. One example is the American automobile, materials for the manufacture of which must be imported from 56 countries. Some of the cars are in turn exported to most of these 56 countries. The 300 different materials required from abroad include, tungsten from China, bauxite from the Guianas and South America, asphalt from Trinidad, asbestos from Canada, antimony from China, manganese from Brazil, India and Russia; upholstery wool from Argentina; tung oil from China; nickel from Canada and Peru; chrome ore from South Africa; vanadium from Peru; rubber from the Straits Settlements; tin from Malaya, kapok from Sumatra and lac, kauri and copal from other countries of Asia.

This one example is typical of a great many of the products manufactured in America. While most of these products are consumed inside the United States, many of them are manufactured or remanufactured and exported abroad. The US dollars received by foreign countries for their raw or finished goods enable these countries to purchase from the United States. A high volume of such exchanges is neces ary to a sound and expanding world economy.

Flight Of Capital

THE southward flight of Chinese capital has reached alarming proportions during the past few weeks, causing much concern and uneasiness among Government authorities, businessmen and industrialists. Some newspapers and business leaders have urged that it is time that the Government did something about it. A spokesman for the Ministry of Economic Affairs assured the public that the Ministry is watching closely the development of the situation and is considering taking appropriate steps to keep

tabs on the southward migration of Chinese factories on the basis of a survey of the industrial condition in Hongkong.

The flight of Chinese capital to the South is nothing new. It began almost a year ago. The extension of the civil strife and the continued deterioration of the Chinese economy have rendered it difficult or impossible for bona fide businessmen and industrialists to carry on or muddle through. Such being the case, they felt constrained to do something to help themselves if they were to survive the present crisis.

Meanwhile, in view of the growing Communist threat to North China and Manchuria, many people of wealth are only too eager to get out of the danger zone before it is too late and go to places which they think to be safe. Thus, a combination of circumstances has led to a steady flight of capital from North China and Manchuria southward to Shanghai. The tempo of the flight has been quickened every time the Nationalists have sustained a serious military reverse.

But Shanghai isn't a good market. Nor is it a "safe" place in the eyes of panic-stricken businessmen. Business is pretty bad and times are hard, to be sure. As a result, much Chinese capital has flowed to South China, particularly to Canton and Hongkong, making the British colony more of a boom town than ever before.

* * *

SO far, no official statistics have been available on the amount of capital that has moved southward. We don't think it possible to compile any accurate data since it is technically impossible to check on the steady flow of capital to the South through "underground" and "irregular" channels. However, one thing we are sure of is that lots of money has found its way from the North to the South. This is one reason why the Chinese financial authorities have found it absolutely necessary to impose restrictions on the sending of remittances and shipment of fapi to Shanghai and Canton.

The situation appears to have gone from bad to worse lately. In spite of Governmental restrictions, the southward exodus of Chinese capital during past weeks has been accelerated instead of retarded. While huge capital from Manchuria and North China continues to pour into Shanghai, the flight of capital from Shanghai to Canton and Hongkong has aroused greater anxiety. According to reports in the Chinese press, the amount of capital sent to Canton by different means on April 16-17 totaled as much as CNC$600,000,000,000. It was further revealed that during the first two weeks of April approximately CNC$6,900,000,000 was frozen by the Central Bank of China. The money was taken from people who had carried fapi to Canton in violation of government restrictions. Well-informed financial circles estimated that several trillion dollars were sent to Canton during the first half of April.

In addition to its quickened tempo, the southward flight of capital has displayed certain characteristic features which merit serious attention and consideration.

A careful analysis of the situation during the past year indicates that the flight of capital to the South in this country has become more complex in character, much broader in scope and more detrimental to China's national economy as a whole.

The first thing that should be borne in mind with respect to this question is that the southward movement of capital has come into existence not because it was called for to meet practical business or trading needs, but simply because China's internal situation left idle capital no way out except flight to better and safer places.

From the very beginning, the flight of capital has assumed the form of sending remittances through the banks or shipping fapi, government bonds or debentures to the South. This remains so up to the present.

However, as the result of the tightening of governmental restrictions on the southward movement of capital, it has become apparent that the flight of capital has taken on a new form—smuggling of exports. Because of the present highly ridiculous foreign exchange policy and unreasonable and troublesome restrictions on China's foreign trade, the smuggling of exports flourished. Instead of shipping Chinese fapi, gold and foreign currencies to the South, people resorted to smuggling. Large quantities of native goods for export were smuggled to Hongkong. Needless to say, this resulted in a heavy flight of capital and presented a difficult problem. The smuggling situation was so serious at one time that the Chinese Government entered into protracted negotiations with the British authorities in Hongkong, ending in the conclusion of an economic agreement, which has for its chief object the curbing of smuggling in South China.

Now, to the shipment of fapi notes and the smuggling of exports there is added a mass migration of Chinese factories from Central and North China to Canton and Hongkong. This is generally regarded as another form of flight of capital. Last year, the sharp turn in the military situation in Manchuria and the Communist penetration into the Yangtze valley were the signal for migration of Chinese industrial plants to Hongkong. It is estimated that the capital of the Chinese factories which have moved to Hongkong totaled HK$50,000,000 by the end of January of this year. The figure must have exceeded HK$100,000,000 by the end of April, since the combined capital of six Chinese cotton mills now being built in Hongkong is given at HK$108,000,000.

Press reports state that more than 10 Chinese cotton mills are planning to move to Hongkong or open branches there, with a total of 300,000 spindles. It is said that 10,000 spindles are expected to be in operation by the end of this month.

In addition to cotton mills, several Chinese silk mills, soapmaking, enamel and thermos

bottle plants have already moved to the British colony. It is generally feared that more and more Chinese industrial establishments will follow suit if the military and economic situation in China continues to deteriorate.

* * * *

ACCORDING to the Ministry of Economic Affairs, the fleeing of Chinese factories to Hongkong is attributable to the following factors:

(1) Cost estimate in Shanghai is difficult because of currency depreciation.

(2) Hongkong is nearer to the South Seas regions, where Chinese textiles command huge markets.

(3) Private dealing in cotton is banned in Shanghai, and the purchase of raw cotton is difficult.

(4) Cotton control is stricter in Shanghai than in South China or Hongkong.

(5) The unstable situation in China causes uneasiness to investors.

To sum up, the continual depreciation of the Chinese fapi, the unsettled or rather chaotic political situation, acute scarcity of raw materials, shrinkage of the home markets and absurd Government controls over industry and commerce have contributed to make it impossible for Chinese factories to operate at home.

It is interesting to ask whether the moving of Chinese factories to Hongkong will offer any solution to the problem. Most competent observers are inclined to answer in the negative. The dry weather there may cause a brittleness of cotton fibre, and therefore a loss in material in the process of manufacturing. The labor shortage in Hongkong presents another hinderance. Governmental controls are very strict. For example, cotton mills are not allowed to employ female workers on night shifts and only cotton of Indian or American origin may be used as raw material. Besides, all factories are required to provide benefits for improving the welfare of their workers.

Moreover, it is highly doubtful whether Chinese textiles will be able to compete with Japanese textiles in the South Seas markets. Japan's textile industry is rapidly returning to its prewar production. With the approval of both the United States and Great Britain, the Japanese Government under the direction of General Douglas MacArthur is going to divert a considerable portion of its textile exports from the dollar markets to the sterling markets in South Seas.

* * *

THE whole picture is anything but bright. The accelerated flight of Chinese capital in the form of mass migration of factories to Hongkong is a significant and ominous indication of a further intensification of China's economic crisis and bankruptcy of China's native industries. Unless the basic causes for this flight of capital are removed, we fail to see how the situation can be radically remedied.

25 Years Ago In *The Weekly Review*

May 12, 1923.

Mass Apathy

The greatest danger of China today is not that there is so much confusion in the country but that there is so much apathy of the masses. The discouraging fact about China today is not that there is so much corruption in her officialdom but that there appears no resolution on the part of the people to change the unhappy situation. While we cannot but condemn the lawless action of a million Chinese, at the same time it is impossible not to deplore the inaction of the other 399 millions. It is due to the absence of fighting spirit that foreign friends of China complain that the Chinese lack sincerity in putting their house in order. It is this lack of fighting spirit in the Chinese that led some to think foreign intervention necessary.

* * *

Practical Christianity

An agricultural institute has just been held in the small hsien city of Lin I in the heart of Shantung. It was unique.....in being a joint affair carried on by the Rev. R. A. Torrey Jr. and the government officials, and in the keen interest manifested by the farmers who attended. Through his extensive famine relief work in this and other districts Mr. Torrey has become convinced that Christianity must be made more practical in its expression to the country people, that famines would continue until better economic conditions could be created.

10 Years Ago In *The China Weekly Review*

May 14, 1938.

Chinese Sailors Rebel

The Chinese crew of the freighter Mundelta, owned by the G. E. Marden & Company of Shanghai, walked off the ship at San Pedro Cal., when they discovered the ship was being loaded with 25,000 tons of scrap iron for Japan. The Chinese crew cut off the steam and halted the loading. The captain announced he would transfer the Chinese to another ship and hire Norwegians for the Mundelta.

* * *

Economic Self-Sufficiency

China must awaken to the need for this movement toward economic reconstruction. Modern industry in China developed abnormally—along the coast and in the treaty ports. The interior economy simply disintegrated year by year because village industry died away, and no new factory production took its place. The big industrial centers under foreign protection were like a stranglehold on the interior, smothering any attempt at small industrial development there. But all this has been changed by the war. The present is a healthy condition for changed and uniform economic reconstruction throughout China. If China takes advantages of the opportunity, the internal market can be supplied by small industries instead of becoming dependent upon Japan. The market is there—and the first to supply it should be the Chinese. Therefore the productive cooperatives can become self-supporting by providing a ring around the interior and keeping the native market supplied.

THE CHINA TRADE PICTURE

(Tomorrow marks the beginning of this year's Foreign Trade Week, which is being observed throughout the United States, as well as in cities abroad where Americans reside and where there is a business community largely concerned with world trade. Trade between the United States and China has long been both large and important to both countries. The following report on trade conditions here was prepared by several foreign businessmen and covers various economic activities of interest to both Chinese and foreigners.—Editor).

IN considering the situation in China, we must realize that China is only now trying to emerge from feudalism. Whether that glimmer of light results from the teachings of Sun Yat-sen and the efforts of Chiang Kai-shek, or whether it is a natural evolution, is unimportant. China's economic basis is still her agriculture and her labor. As a matter of fact, China formerly sold primarily cheap labor in the foreign market, and her unfavorable balance of trade was made up by remittances from overseas. Since her economy was as unstable as the fruits of labor which were dependent on the weather, the balance wheel was the foreign concessions. These concessions, castigated by all Chinese revolutionists, acted as a dependable staging point for merchandise, a reasonably safe location for investments and a depository for surplus funds. Now only the Crown Colony of Hongkong remains to fulfill these functions.

Present conditions in China are almost the exact reverse of former years. In the first place, per unit of production this country is one of the most expensive labor markets in the world. Not only is that labor market expensive, its elements are completely irresponsible because of an immature labor union development and because the Government leans over backwards to satisfy labor in order to prevent trouble which would otherwise have to be suppressed under the title of Communism. The country, following a system of printing press financing, has eliminated one of the basic, if not the main, factors in its economy. The inflation is now rampant and uncontrolled. The inevitable results accrue and prevent investment in productive enterprises; discourage effective government; make prohibitive the acquisition of foreign exchange from the sale of native products, and retard rehabilitation of moral and physical factors of which, among the latter, communications is one of the most important. In addition, there seems to be a desire on the part of the officials to promote government and quasi-government monopolies despite the fact that all Chinese people are individual entrepreneurs.

This is the 37th year of the Republic of China. Actually, it is not a democratic regime but rather a glorified edition of the old 'war lord' system with only a semblance of democratic principles for outside consumption. Like the government of Russia, whose organizational system China follows, this is a government by a single minority party. The Kuomintang party rules through 4,500,000 members the destiny of over 500,000,000 people. Under such a system it is easy to see how the big families and their supporters maintain themselves, particularly when it is admitted that 85 percent of the people are illiterate. Democratic government only exists where there are educated masses. This is a long procedure in China, and one on which emphasis is not being placed because the funds of the Government have been used rather to support and maintain in power the single, all-interested party.

The result of this system is the ultimate in bureaucratic government in that the country is ruled by decree. Since it has relatively few capable, educated men, the shortage of able administrators requires that all the elements of a police state be maintained in order to enforce the unilateral action of the Government. Under conditions which exist in China, that procedure might be recommended if the action by the Government were constructive. Unfortunately, this is not true. The enforcement of laws is arbitrary, and the laws themselves deal in trivialities, ignore the basic problems confronting the country and overlook its relationships with and commitments to other countries.

It may be wishful thinking to hope that better government will come about. At the moment there are two factors which prevent improvement in the immediate future. The main one is the so-called Communist rebellion. Perhaps, they can better be called bandits (so named by the present Government), an element with which China has been handicapped for thousands of years. In this case they are probably better equipped and organized than previous efforts, but primarily it is the ineptitude and inefficiency of the Government which permits them to continue in their present strength. A second equally important factor preventing better government is the complete lack of interest and desire on the part of the people, particularly business and professional men, to engage in politics or take part in government. In a country with relatively few capable men, the lack of participation of this broad group invites inept government, and furthermore does not provide a counter party which could force better government.

This deterioration of government and economic position cannot continue endlessly; some positive action is necessary. In estimating the situation it must be remembered that China possesses tremendous recuperative powers, her history includes civil wars, banditry and corruption, and she still has resources to cope with the present situation. At the moment a three way split of the country—vis. Communist-North, Kuomintang-Central, Independence-South—is not unlikely, particularly if the Government pursues its present blundering. More likely, however, is a reorganization of the Government, either by delegation of authority by the Generalissimo or by his resignation, and the formation of a new government by the liberal elements. A third and probable possibility is further US aid, realistically supervised in a manner unlike that which has taken place in the past.

In line with many other countries in the world, government restrictions and planning absolutely control the volume of business which can be effected. In addition, since China has been resolved into a police state in which laws and regulations are promulgated overnight without recourse to normal legislative practice, it is impossible to foretell what further restrictions will be imposed upon us. In general the government controls with which we are now confronted are not greatly different from those prevailing in other areas in the world. In many cases, however, it is not the regulations but the administration of the decrees which confronts business in China with seemingly unsurmountable barriers.

The remainder of this report will consist of a brief picture of the major foreign businesses in China and how they must operate under today's conditions.

* * *

IMPORTING

UPON cessation of hostilities in 1945, the American manufacturer and exporter and their American counterparts in China looked forward to what they hoped to be an uninterrupted flow of American products into China. China required every sort of raw commodity and manufacture to rebuild her economy after eight years of war. Her population was more than ever before able to afford the necessities and luxuries that other countries could provide, because food from the farmer commanded high prices and the industrial population commanded good wages.

Early in 1946 this flow of goods began. Unfortunately for the importer in China of manufactured articles, foreign manufacturers were not able to supply freely while im-

porters of raw commodities and non-essential luxuries were able to obtain vast quantities which were over and above what were needed for a normal supply of the China economy. At this point it became apparent to all that the Civil War was a fact and that the Government would have to maintain a war-time economy with about 80 percent of the national revenue being diverted into an economically unproductive war machine.

The Chinese Government by March of 1946 had realized that Chinese holdings of foreign exchange were being rapidly depleted and at that time requested that no further sales or consignments of certain commodities be made to China. This was done, however, without any attempt to cut off the flow of many non-essential luxury items which were just as great a drain on foreign exchange. The Government's belief was that imports would lower prices and lead to price stabilization. Exports, the prime source of foreign exchange and expected to finance much of the necessary imports, failed to gain much momentum (see Export Report), a development in which the Government showed little interest.

This situation continued throughout the balance of 1946. The official exchange rate was fixed far below the blackmarket rate on which local business is based, so that in effect imports were subsidized by anywhere from 100 to 400 percent and exports were similarly penalized. Only on November 17, 1946, were stringent export & import licensing and currency regulations introduced. The regulations as they were issued were sound, and, as long as exports were not revived, necessary; but China did not possess the ability to administer them in an efficient manner. Imports were divided into various categories (Schedules) according to their importance, with different methods of licensing of the various categories. It was naturally expected here in China that established importers would be given their share of the limited foreign exchange on the basis of past records. In other words, it was believed that established firms would get the most substantial amounts of foreign exchange. However, with inexperienced personnel to carry out the complicated system of import-export control, regulations were not administered as intended, with the result that fly-by-night concerns and well-connected corporations did the majority of the business.

The interpretation of these controls in many ways prevents legitimate trade operations. However well they might be handled by the authorities, they must be stifling to the economy of the country unless a realistic approach is made by the authorities to provide an income of foreign exchange through exports and also, China's standby of many years, overseas remittances to the people at home here. These remittances are paid through banking channels at the official rate, so that today 90 to 95 percent have become blackmarket transactions and thus provide no income to the Government.

The Controls have been both a handicap to the recovery of the country and to foreign trade in China. For instance, needed capital machinery was delayed for as much as eight months abroad while paperwork for retroactive licensing of sales made since the end of the war was completed. Since reconversion difficulties and strikes in the United States had allowed but few shipments to that time, practically all sales since VJ Day were in this category. It is also a fact that some urgently required machinery is still being held in storage abroad since licensing procedure is not yet completed.

Established importers of commodities and basic materials supposedly were to obtain quotas based on their prewar records of imports. However, as most of the long-established firms had their records destroyed during the Japanese occupation, the authorities used the year 1946 as the basis. The well-connected corporations and the fly-by-night importers, both of which had blackmarketed from jobbers and domestic supply in other countries (to them price was no object as the China market yielded profits of 200 to 300 percent) became holdiers of the larger quotas. The old established firms representing ethical foreign industry and equipped for service were thus the sufferers. And as quotas were based on the CIF value, the higher the blackmarket cost in 1946, the bigger the quota became, adding insult to injury.

Another drawback of the regulations is the elimination of the carrying of spare part stocks by authorized distributors. Thus, for instance, the distributor of a Diesel engine manufacturer is prohibited from importing engine parts to be carried in stock. This results in all users of such engines being forced to maintain their own spare part stocks, with resultant duplication throughout the country, or face the possibility of an engine being out of commission for months while an import license is obtained and subsequent shipment made.

As 1947 and 1948 passed, the export-import control authorities made a conscientious effort to smooth out the operation of their controls, but with the limited amount of foreign exchange available to them, constantly decreasing quotas were decreased or even abolished, some important commodities only being granted licenses today when bank credits or barter deals are available.

An aspect highly important to the foreign importer in China under present conditions is that he can obtain foreign exchange only for the CIF value of his product. His profits accrue in Chinese currency and he is obliged to invest them in tangibles within the country, or face their loss through the devaluation of the currency. He can spend part of them in rehabilitation (as far as he is able to obtain equipment) of plants and equipment and in the purchase of industrial and residential properties.

There is considerable opinion among foreign trade circles in China that should regulations governing exports and imports be quickly withdrawn and no official exchange provided, the market would seek its own level and be more realistic, imports of necessity being linked to exports.

* * *

EXPORTING

THE problems of the exporter in China are so numerous and of such complex nature that only the high spots and a brief survey of the actual conditions facing the industry can be presented in a short report.

The export trader is simply trying to hang on to his business in the face of ever increasing problems and interference beyond his control. He lives in memory of those years before the war when free competition and stabilized conditions enabled the world to enjoy China's produce.

The value of China's exports was never so high as one would expect from so large a geographical area, mainly because the ever multiplying population had to use the country's production for its own survival. From 1900 to 1936, the British and the Americans issued loans through government and private channels to help overcome the unfavorable balance. China also floated various bonds, which are largely valueless at present.

The five largest exports in terms of U.S. dollars in 1938 (the last peacetime year before the war with Japan) were, excluding Manchuria:

1)	Wood oil, ...	US$21,298,000.00
2)	Silk, ...	„	9,630,000.00
3)	Tea	„	8,884,000.00
4)	Bristles	„	7,331,000.00
5)	Sesamum seed	„	5,380,000.00

Today the nation is trying to fight a civil war and at the same time, recover from the 10 long years of standing off the Japanese. Foreign exchange gained through exports is more vital than ever, and the Government, in order to relieve the present unbalanced condition. announces campaigns to encourage and develop them. The actual methods to date, however, continue to channel an ever increasing amount of the total trade of companies and banks into government-sponsored corporations.

One of the biggest handicaps to a return of China's exports is disturbed inland transportation due to the Civil War with resulting small and irregular arrivals of export produce at the seaboard. There have been fine crops of various commodities in the interior, and sometimes only a small percentage has actually come through.

Occasionally military commandeering or enemy interference with river tonnage or railway service leaves cargo stranded and unguarded. This hazard is so threatening that ex-

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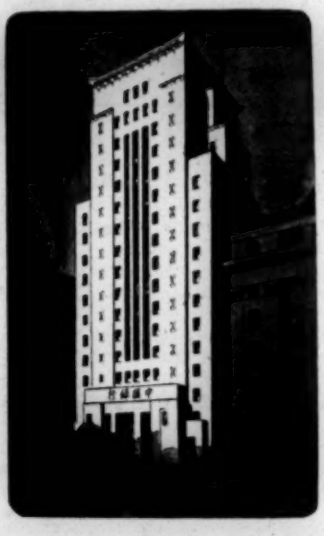

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porters have had to buy their cargo F.O.B. Shanghai or other large sea ports, and could not contemplate forward commitments with their buyers abroad.

The cost of inland transportation has mounted tremendously along with the Chinese inflation and is now many times what it was in prewar days. At present, it often costs as much to ship cargo from inland points to the seaboard as it does to ship the same cargo to any point in the world.

The unrealistic official rate of exchange for Chinese national currency, makes the exporter pay much more for produce than it is actually worth. At present the official rate is CNC$320,000 to US$1 but commodity prices always follow the black market. The Government requires the exporter to surrender all of the foreign exchange received from sales abroad at the official rate, with the recent exception of manufactured goods, in which case the Government allows about 40 percent to the exporter for purchase of raw and packing materials. It can easily be seen that under these conditions the trader has to pay double the price for the actual goods received, and cannot compete in international markets.

This unrealistic official rate is insisted upon by the Nanking Authorities as a means of slowing down the inflation of the currency. But its effect on the export business is to completely stop most transactions until the authorities again reluctantly step up the official rate to a figure more in line with the black market.

This condition has encouraged some of the more unscrupulous operators to undervalue their exports in their official declarations and to surrender only a small amount of foreign exchange at the official rate. The balance is usually deposited to the trader's account in some foreign city. Legitimate traders, particularly non-Chinese, cannot afford to jeopardize their position by adopting this underhanded practice, and although repeated protests have been made to the authorities, nothing effective has been done to prevent it so far. The seriousness of the position can well be illustrated by the situation in Canton where it is the main reason for the almost total absence of foreign trading activities.

Government-sponsored or wholly owned "companies" like the Central Trust of China, China Vegetable Oil Corporation and others, are increasingly placed in a more favored and powerful position to the corresponding detriment of the private trader. When these government entities exercise the full force of their position through special import quotas and unlimited CNC finance, the entrepreneur cannot possibly hope to compete. These companies are controlled by the "favored" friends of the ruling clique and prospects for curtailing their monopolistic activities are not encouraging, to

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say the least.

This favoritism is apparently a part of China's nationalistic movement in which all Chinese interests are encouraged at the expense of the non-Chinese. It is to be regretted that the new, inexperienced monopolies have often shipped inferior products or in some other way violated their commitments, with the obvious loss of good will to China.

Other nations are in great need of the products which they once obtained from this country. The United States needs tremendous quantities of Ramie (China grass), bristles, oilseed products, minerals and other articles. America has money to pay, and if some means can be found to eliminate present conditions, China's export trade could almost immediately show signs of improvement. This, in turn, would lessen the need for periodic US dollar loans.

BANKING

The foreign banks in Shanghai find themselves today in a very different market from that in which they participated a decade ago. Before World War II and its resultant foreign-exchange controls, foreign banks in Shanghai derived their principal income from (a) exchange dealings and arbitrage, (b) international trade finance and (c) local business, in that order.

Income from international trade was second only to exchange profits in importance to banks, and China's trade was usually brisk and profitable. Since trade is the main reason for the existence of foreign banks in any country, this phase of banking was vigorously pursued and was a constant source of earnings. The protection and stability afforded by the treaty ports at the principal outlets from the interior encouraged trade to expand, profits to grow and business to flourish. Foreign banks were the financial bridges which connected treaty ports with every major trade center in the world.

The third important source of income for foreign banks in Shanghai before the war was local checking and savings accounts and the usual services offered by any large bank in the United States; but the foreign banks didn't compete seriously with the local Chinese banks in this field. The losses sustained as a result of the war, inflation and exchange controls have been enormous here, in the individual sense, and to the business community as a whole.

Now, with pegged exchange rates and official exchange regulations, arbitrage, the main source of earnings, is gone. The large exchange profits went with the war. Private trade to and from China, curtailed by import-export regulation, unrealistic official rates, the inability to remit profits, if any, and port difficulties, has been almost dried up. With the main sources of business either cut off or greatly reduced, foreign banks have had to turn to local business, which has been confined largely to current accounts and the

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loan market. Only by this expedient have they been able to meet expenses and keep abreast of the inflation. Hence we see our banks more active in the local markets and making every effort to increase their deposits in order that they can participate in local loan ventures. Where formerly they concentrated on foreign trade, the banks now turn to local finance as their prime source of income.

Before 1941, profitable banking operation was built on (a) forward exchange, (b) export bills, (c) import bills and (d) customers' deposits. If we look at these four today we see that (a) the sale of forward exchange is prohibited, (b) export business is reduced to almost a trickle because of the inflation and the unfavorable official rate of exchange, (c) import bills are restricted, and all imports are greatly reduced by import regulations, and (d) customers' deposits have almost disappeared, for no one will keep large bank balances in a currency that depreciates as much as 40 percent in a month. That is the picture of banking in China today.

The oft-heard comment that banks are now mere puppets of the Chinese Government and merely carry out the Government's policies and wishes is not altogether groundless; yet, a certain amount of freedom still exists in the conduct of local business, though a constant increase in government and banking guild bank regulations are making it more and more difficult to turn around safely. It should be pointed out, in all fairness, that these regulations apply to all banks and are not discriminatory toward the foreign banks, though such regulations often run counter to American banking law and practices. The Chinese officials undoubtedly realize that the existence of large foreign banks in China lend a certain amount of stability to the local financial market and that it is of importance to China to maintain these foreign connections, especially while the Chinese scene is in such a state of flux.

Despite this new and less favorable situation in China, the foreign banks, like most businesses, are doing everything in their power to maintain their positions. In the long-range view they feel that if the present difficult days can be survived, better days lie ahead. The fact remains that the Orient still possesses a great potential for industrialization, foreign trade and investment. And as China solves her own political problems, strengthens her economy and becomes industrialized, we will see the prospects of the foreign banks in China brighten. Banking is a sensitive instrument measuring the business conditions of the community, and, just as the banks today show the difficult position of all business in China at present, they will be the first to register the signs of improvement.

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operating in China prior to the war, hastened to reopen their offices and to recommence their business. At this time most underwriters looked forward to a productive and profitable future here as it appeared that following the war there might arise a strong and efficient single government of China.

Generally speaking, the American companies renewed their activities in China on a broad basis and accepted nearly all lines of insurance. This was not done generally by companies of other nationalities. Many underwriters were cautious and accepted only the best classes of marine risks and declined to accept general "run of the mill" business. So far this has operated to their disadvantage as they have lost a great deal of good business. By accepting all classes of business, the American companies, generally speaking, are now in a relatively stronger position in the market than they occupied prior to the war.

The conduct of insurance operations in China since the war has not been an easy matter. Some companies have found it most difficult to obtain the necessary registration with the Chinese Government. Some other companies as yet have not obtained registration primarily because of the difficulty in obtaining recognition by the government of the qualifications of their underwriters. In the long run, however, it is expected that these difficulties will be ironed out and that consequently any qualified company will be able to operate to the fullest extent of its facilities.

The regulations relative to exchange have made it illegal for offices located in China to issue foreign currency policies, with the exception of policies covering marine export shipments. All policies issued on local marine, fire and other businesses must be written in Chinese National Currency. The fact that there are no means of remitting premium reserves to America via legal channels has tended to discourage underwriters generally from accepting more local currency business than just enough to cover their expenses. The activities of American insurance companies in China may be roughly divided into four classes; namely, marine, fire and allied risks, casualty and reinsurance of all types.

The marine insurance market was in the past the largest source of income of most American companies operating in China. Prior to the war, marine insurance was a steady and dependable source of income. Cargo on ocean voyages was carried in the main, in first class, foreign-owned and managed vessels.

Most shipments were made by shippers with long experience in their particular trade and properly trained in packing and protecting their cargo. This tended, in the long run, to produce a good loss experience for the insurance companies and reasonable rates for the marine insurance buyer. The position since the war has been considerably different. The general run of American export cargo since the war has been notoriously poorly packed, particularly in com-

parison to shipments of similar cargo from other countries, such as the United Kingdom and the Scandinavian countries. The inadequacy of packing can in part be blamed on shortage of packing material in the United States. However, more of the blame may be laid on the many inexperienced newcomers to the export field, who shipped millions of dollars worth of exports to China in flimsy crates and domestic paper cartons. The net result of this bad packing was to make the buyer in China in many cases unhappy at the condition of his goods on arrival. Because the insured amount of the loss was less than the market value, he would, of course, have preferred to receive the cargo in sound condition than to receive a loss payment only slightly over the invoice value.

At the same time that this large volume of import cargo was arriving in China badly packed, the extremely disorganized condition of the port cities tended to cause an increased amount of theft and pilferage. This maintained insurance rates at very high levels and caused losses to reach unprecedented frequency. The pilferage situation remained particularly serious while large quantities of high-valued, easily pilfered cargoes arrived in China and were stored in port godowns for long periods. Today the situation has changed somewhat in respect to pilferage. Police protection is more effective, and the quality of supervision over godown keepers and coolies seems to show some slight improvement. The reduction for pilferage losses, however, may be mainly attributed to the import regulations of November 1946 which barred the importation of luxury items. It is obviously easier to steal cameras than a bale of cotton or a hogshead of tobacco. Marine underwriters were also concerned with the piling up of important cargo in wharf godowns, as this condition caused huge concentrations of liability which were subject to a catastrophic fire loss.

At present the wharf godowns are relatively clear, and the question of large concentration at risk in wharf godowns no longer remains as important as it did in 1946 and 1947.

Immediately following the war, marine export insurance was an excellent source of business for all companies operating in China. Large quantities of Chinese export goods had accumulated during the war years in or near the port cities and when trade began these goods, of course, moved out rapidly. This happy period of large export volume, however, came to a stumbling halt at the end of 1946 and has only periodically shown improvement since. There are still small flurries of exports, but only when the official rate of exchange is more than about 70 percent of the black market rate of exchange. The disruption and commandeering of domestic transportation by the military have, of course, also tended to prevent export goods from reaching port cities and this again tends to reduce the volume of potential exports.

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perience since the war, particularly in respect to covers including more than strictly marine perils. Theft and pilferage losses on Chinese coastal shipments have reached alarming proportions, and many underwriters are refusing to insure these risks on such voyages. Another factor which makes it difficult to write broad insurance coverage on local voyages is the difficulty which insurance companies find in obtaining compensation from steamship companies for losses due to their negligence. In the case of such losses incurred while the cargo is carried on American or most foreign vessels on ocean shipments, underwriters are able to receive prompt and adequate compensation from the steamship companies. Consequently such losses do not grossly affect the marine rates charged. In China it is felt that if the steamship companies continue to be ready to deny each and every claim made upon them, that in the long run marine insurance rates on such vessels will rise even higher than they are at present.

The seaworthiness of many of the vessels engaged in the coastwise and river trade is also open to serious question. Many cases of heavy overloading which jeopardizes the safety of both the vessel and the cargo are known. Repair facilities for vessels in ports other than Shanghai are not readily available. The Chinese local merchant fleet has expanded tremendously due to the number of surplus vessels obtained by China following the war. It is believed that there

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has been some difficulty in obtaining properly trained officers and crews to man these vessels.

As both import and export shipments have dwindled the insurance market has tended recently to become more competitive for all types of marine insurance. This has caused a reduction in rates for practically all shipments and in some cases the rates have been reduced to a point where underwriters are bound in the long run to suffer heavy losses. The exchange regulations on the other hand, have in some respects aided underwriters in China, as it is cheaper for a buyer to place his insurance on exports in China than to place it abroad, since the marine premium like the ocean freight may be obtained at the official rate of exchange. This means a saving of from 30 to 50 percent of the premium in hard money. As this fact is realized abroad, more and more insurance is placed locally and will, in the long run, benefit local underwriters.

COMMUNICATIONS

The international communications system in China is owned and controlled by the Ministry of Communications and is operated entirely by the Chinese Government Radio Administration (CGRA). Shortly after VJ Day, the Administration resumed its operation in Shanghai. The equipment that was left by the Japanese was not only obsolete, but also was in very poor condition. The Administration immediately began purchasing new equipment and engineers from the various communications companies in America were sent out to China to aid in the installation of this equipment and to teach the Chinese how to operate it. In addition to the purchase of new equipment, CGRA sent several engineers to the United States to learn different phases of communications. At present China has one of the most modern international radio services in the world.

The American companies having traffic agreements with China are RCA Communications Inc., Mackay Radio & Telegraph Co. Inc., Globe Wireless Ltd. and Press Wireless Inc. These companies all have representatives in China for the purpose of maintaining close liaison with the Chinese Administration and their respective Head offices in America to promote efficient operation of their respective jointly operated radio circuits. None of the above-mentioned companies transmits or receives messages in China. This is all done by CGRA. At the American terminals, the reception and transmission is all done by the respective American company. Thus, in effect, China is served by the following direct circuits operated jointly by the following combinations:

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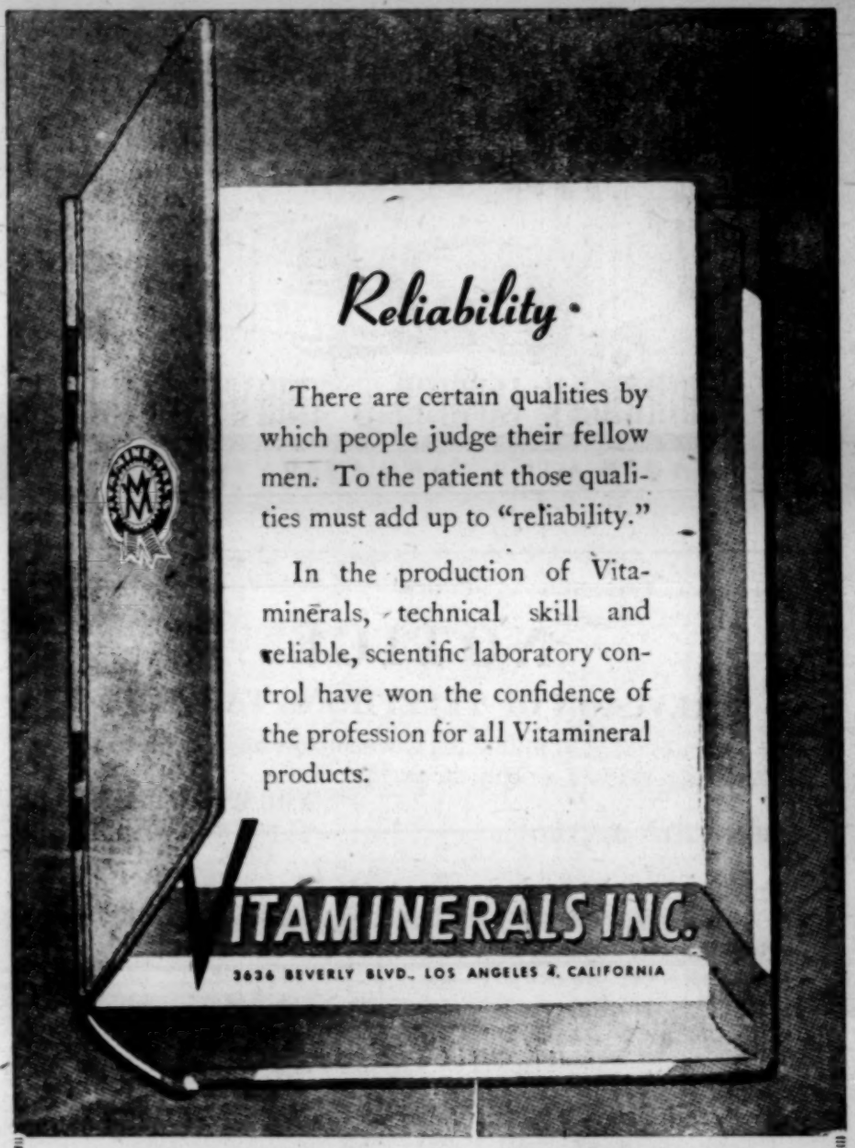
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Residence line with allowance of 60 calls per month	630,000	725,000
Extension station on same premises	315,000	410,000
Additional messages, in excess of monthly call allowances:		CN$
Usage between 61 and 100 (residence) per call		10,500
Usage between 101 and 200 (business & residence) per call		10,500
Usage in excess of 200 (business & residence) per call		18,000
Note: The usage of subscribers with more than one line will be averaged so that full benefit of the allowance and of the above progressive scale of charges will be given in respect of each line.		
Public Telephone Service, per call		20,000 (no change).

Charges not included in the above table may be obtained by calling the Business Office of the Company.

When making calls from Public Paystations the public are asked to pay only the authorized tariff of CN$20,000 per call and to report to the Business Office of the Company any instances when a higher charge has been demanded.

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munications in maintaining efficient service, the American companies maintain representatives to canvass the public for the specific routing of messages over their respective jointly operated circuits, since the tolls are divided on a fifty-fifty basis between CGRA and the American company handling the message. If messages are not marked with any special routing instructions, they are divided between the three companies according to the amount of incoming messages over their individual circuits.

In addition CGRA operates radio telephone service to the United States and England, with service to other countries planned. They also operate Morsecast, Programme Transmission service and Radio Photo service.

The international communications system is in excellent condition now; but the communications system used in China for domestic traffic is yet to be adequately restored. Continuous efforts are being made to get this system operating more efficiently; but the civil strife hampers this.

MANUFACTURING

Local manufacturing companies have had a very difficult time trying to regain their prewar position, and to this date most of them have not resumed operations or are operating on a limited scale. At the beginning of the war, American companies were seized by the Japanese military and operated by related Japanese companies, usually continuing the same line of products. Imported stock inventories were consumed, and in many cases the best machine tools were shipped to Japan or other parts of China under the control of the Japanese. Little or no maintenance work was done on buildings or machinery, and as machines wore out the remaining good parts were stripped off to repair other machines. During the period immediately following VJ Day, there was, for all practical purposes, no supervision, since no American company had men on the spot to take over. A great majority of the remaining tools and small motors disappeared, as well as critical parts from production machinery.

As municipal governments were set up following VJ Day, all factories were required to register with the Bureau of Social Affairs before resuming operations. This bureau then became responsible for the administration of the factory law and the various workers welfare laws set up during the war. A brief resume of one law promulgated by the National Government of China on January 26, 1943 follows:

"Article I. Public or private factories, mines, or other industrial undertakings shall appropriate monies to constitute funds for the welfare of their salaried and wage earning employes.

Article II. The appropriation of monies for salaried and wage earning employes funds by factories, mines, and other industrial under-

takings shall be regulated in conformity with the following provisions:

(1) From one to five percent of the total capital investment of a concern when it is set up shall be earmarked for the welfare fund.

(2) A proportion of from two to five percent of the total amount of the monthly salaries, wages and allowances to be paid to salaried and wage earning employes shall be earmarked for the welfare fund.

(3) One half of one percent shall be deducted for this purpose from the salary or wages and allowances of the employes.

(4) From five to ten percent of the profits earned shall be earmarked at the end of each year.

(5) From twenty to forty percent from the proceeds of the sale of scraps or waste materials. Subparagraphs (1) and (4) do not apply to public undertakings."

On October 23, 1943, regulations were promulgated by the Ministry of Social Affairs stating that all factories having more than 200 employes must establish this welfare fund and use it to maintain the following services:

(1) a dining hall
(2) dormitories and accommodation for families
(3) a hospital or clinic
(4) a supplementary school and a school for employees' children
(5) bathrooms
(6) a babies' establishment
(7) a nursery
(8) an employment service
(9) a laundry and sewing room
(10) a library
(11) a recreation room
(12) a playground
(13) a consultation office and writing room
(14) other services for the welfare of salaried and wage earning employes.

To date this has not been enforced.

Wages have become a more dominant factor in the conduct of all factories. Before the war, there was the general idea that China possessed a vast cheap labor market but this was something of a fallacy. Although individual wages were low, the production per operator was so low it would require three or four operators to produce the normal output of one American operator. This is due to their lack of stamina, lack of dexterity and their mental attitude that time is not important. Following the war, a cost of living index was set up with the base year 1936. However, labor demanded that the base wage be set at the same level as that of 1941 — a year which included cost of living increases for the period from 1936 to 1941 and which amounted to approximately a 100 percent increase. In all cases, the Bureau of Social Affairs agreed; so we now have the situation of paying double the base salary, multiplied by a cost of living index based on 1936.

There are many conflicting sections in the labor laws which make

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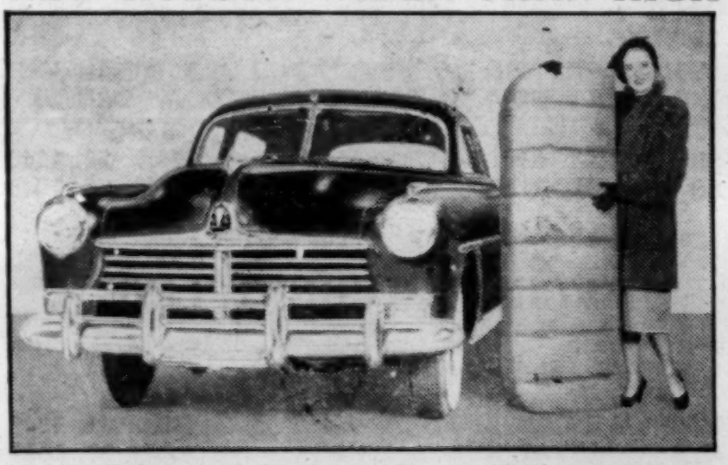

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labor policy very difficult. For example, in one section of the law it states that you can reduce your staff or discontinue your production upon seven days' notice, while another section states that you can do the same thing upon 10 to 30 days' notice, depending upon the length of service of your employes. However, it is generally known, based on decisions from the Bureau of Social Affairs, that three months' wages must be paid to all employees with more than six months' service. Despite all of these laws and rulings, there is a large American factory which has tried to close down since last November due to lack of component parts and has produced nothing since that time. Although the management of this factory is willing to pay all employees a three months' leaving allowance, the municipal government refuses to allow them to close and thus increase present unemployment. Thus the company is forced to continue paying monthly salaries to all employees for no work. In addition it had to pay an extra month's bonus at Chinese New Year to prevent the operators from damaging equipment.

LABOR RELATIONS

During 1947 labor and management relations progressively worsened. The number of disputes which occurred in Shanghai during 1947 was estimated at between 2,000 and 2,400, or about double the 1946 figure.

The two major causes of disputes were questions of wages and unemployment resulting from factory closures or shutdowns, either seasonal or due to unsatisfactory operations. Approximately 30 percent of the disputes were caused by closures.

In addition to purely labor disputes, there were those of a political nature. The first major one occurred in February 1947 when employees of a department store staged a demonstration which was partly anti-Kuomintang, partly anti-American, and demanded that only Chinese manufactured goods be sold.

On May 1st, 80,000 workers attended the Labor Day celebration at the Race Course, during which the Shanghai Workers Association, claiming to represent one half of Shanghai's 800,000 workers, threatened a general strike because of an increase in the cost of living while the municipal authorities had frozen the cost of living index. The threat, however, was not carried out.

During the year there were sporadic strikes in the utility industry, and in late September the police arrested several alleged communists in both the Shanghai Power Co., and The French Tramways. This touched off strikes which lasted several days and led to numerous incidents resulting in quite a few injuries. The union leaders at both the S.P.C. and French Tramways either were arrested or fled. The unions were disbanded by the Government but were reorganized later.

This year's first major strike broke out at the Sung Sing Cotton Mill No. 9. The causes were not actually determined but were attributed to communists. The workers locked themselves in the plant, of which they demolished a considerable part. The police were called in and order was restored after three were killed and 70 to 80 injured.

In Shanghai there are approximately 700 labor unions ranging from the Shanghai General Labor Union, Federation of Chinese Postal Workers and the Seaman's Union to the Hog Bristle Processors Union.

Labor conditions in foreign enterprises as compared to Chinese controlled business are conceded to be slightly better, although wages in the larger factories are similar.

As to the future, the general economic retrogression will probably widen the breach between labor and management while Communist gains in the North will increase the political differences.

TAX

A new income tax law became effective April 1, 1948, which supplants all former laws and regulations. The excess profits tax which had been set up after World War II has been abolished. The new law is somewhat clearer than the old law and theoretically does away with the distinction between foreign and local firms. The maximum rate for business is 30 percent on net income. The authorities have levied a kind of advance tax on business firms for the current year which is set at six times the tax paid last year.

The rates on individual incomes have been reduced slightly. Business firms are required to withhold taxes on salaries of their employes each month.

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In Shanghai and other municipalities there is a rental tax paid by the tenant on the amount of rent he pays, five percent on residence and 10 percent on business properties. An owner who uses a property for his own use also pays a rental tax according to a formula devised by the municipalities.

The stamp tax has just been increased 10 times. Although this is supposed to be a document tax, it applies to receipts and invoices and in practice becomes an additional sales tax.

The land tax charged to owners of real estate is rather a nominal one, but tax on transfer of real estate is not. There is no direct property tax in China like that in the United States. There are in addition to customs duties, a variety of wharfage, conservancy and other charges. Municipalities throughout China sometimes lay special assessments of doubtful legal validity but enforce collection. In some localities, the authorities have attempted compulsory loans or donations for suppression of bandits or for the aid of troops. Taxes and tax regulations are frequently amended to keep pace with the inflation.

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By: Research Department

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ALTHOUGH plants, animals and man have been utilizing vitamins and minerals since life began, the knowledge of their nature and importance ranks among the newer developments in the science of nutrition. Prior to the comparatively recent origin of that branch of science known as biochemistry, nutritionists were concerned only with proteins, fats and carbohydrates because the key role of vitamins and minerals, particularly the so-called trace elements in the digestion, assimilation and utilization of fats, proteins and carbohydrates had not yet become known. (1)

When vitamins were first discovered less than 30 years ago, and a few things became known about the identity of some of these vital factors in foodstuffs and the functions they performed in metabolism, it was believed they were few in number and that they were simple chemical substances, the lack of which in the diet, produced specific diseases. For example, when vitamin B1 was isolated and animal experiments demonstrated that a deficiency of this single factor produced polyneuritis in birds, the first assumption of doctors and nutritionists was that by isolating and concentrating this particular vitamin and administering small amounts of it to patients afflicted with polyneuritis, the disease could be conquered. This line of reasoning lead to elaborate research to isolate and reproduce synthetically, this and other single vitamin factors. (2)

The result of these preliminary discoveries lead the profession, for a time, to pin all of its hopes for combating the group of diseases known to result from deficiencies of single vitamin factors, on the synthetization of these few known vitamins to provide specific tools for combating the particular deficiency diseases. In the meantime, however, as research progressed along biochemical lines, it became increasingly evident that not only are vitamins complex substances as they occur in natural foods, but furthermore, that their assimilation and utilization, as well as their pysiological functions, were intricately interrelated. (3) Furthermore, it became increasingly evident that instead of a few single vitamin factors, such as A, B, C and D, they consisted of a great multitude of different fractions, the identification and physiological knowledge of which is still a vast unfinished business. For example, it is known today that the B complex consists of 10 or 12 established vitamins and many others are still unknown. It is established today that natural vitamin D as it occurs in animal tissues, particularly fish livers, is a complex substance consisting of not one, but at least 12 different D vitamins, some of them at least, having different biochemical effects. (4)

Another example of this complexity in natural vitamins is seen in the case of vitamin E which at one stage in the unfolding knowledge of the subject, was believed to be a single factor in wheat germ oil designated by chemists as alpha-tocopherol, whereas it is now known that wheat germ oil contains delta and gamma tocopherols and also, as many nutritionists now suspect, still other fractions, the nature and functions of which have not been fully determined. (5)

Another bit of knowledge revealed by the continuing research of biochemistry is that before some of the vitamins at least can be utilized in physiological processes, they must combine with certain minerals, particularly the trace elements, and with fractions of proteins called amino acids, (3) although here again our knowledge is still far from complete, so much so that even today the authorities have definitely established essentiality in human nutrition for only a few of the complex vitamin factors, while in the mineral field only four have been positively classified as to human daily requirements, namely, calcium, phosphorus, iron and iodine.

In spite of the fact that the science of biochemistry is still regarded by nutritional authorities as being in its infancy, it would require volumes to record all that is now known about the interdependence and interrelationship of the various vitamin complexes and the trace elements normally found in the mineral part of constituents of the foods containing the proteins, fats and carbohyrates which are daily consumed by every human being. A single example, however, may suffice to indicate to the thinking mind, the nature and complexity of this interrelationship and to point up the obvious fact that there is still a great deal to learn about the human need for the natural vitamin complexes and the many trace elements naturally present in foods.

The science of biochemistry now teaches that in the conversion of starches to sugars with the ultimate production of energy for the body, a vast chain of chemical reactions occur in which certain enzymes play an essential part. This science has further traced the formation of these enzymes from intermediate chemical compounds called co-enzymes, which in turn, are known to be built up from the combining of vitamins, minerals and proteins. In the formation of these enzymes and co-enzymes, certain of the B complex factors, such as vitamin B1, B2 and niacin and certain minerals such as phosphorus, magnesium and manganese, are known to be essential. If one of these factors is missing by reason of dietary deficiency, the enzymes cannot form and the conversion of starch to sugar halts at an intermediate stage with the formation of pyruvic acid and other toxic chemicals. (43

It is true that synthetic vitamin B1 or thiamin hydrochloride is identical in physiological activity, with natural vitamin B1, but as it is produced in the laboratory, it is not surrounded with all the other factors of the natural B complex, which apparently must be associated in at least some of its biological functions. Furthermore, it is in a chemical form that is extremely water soluble and subject to rapid oxidation and destruction. On the other hand, the natural vitamin B1 as it occurs in foods and in concentrated food substances, such as yeast and liver, is largely in bound form and presumably to some extent at least, in the form

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of carboxylase or the co-enzyme. Also as it occurs in these foods it is associated, not only with the other members of the B complex family, but with the trace mineral elements, such as magnesium and manganese, to mention only two which may be involved in its utilization, and with still other unknown substances which may act as protective factors or natural antioxidants to prevent or retard its conversation to biologically inactive forms. (3)

In the field of mineral metabolism, the question of whether organic or inorganic minerals are the more valuable from the standpoint of assimilation and utilization, is still a controversial one. Recent animal experiments with some of the more common and established essential minerals, such as calcium, phosphorus and iron indicate that in a deficiency the body is able, at least to some extent, to assimilate and utilize inorganic materials. (3) On the other hand, students of colloidal chemistry, which is presumably the form in which minerals are present in natural foods, incline strongly to the belief that organic minerals are more physiologically acceptable. (6) Over and above this there is still so much to be learned about mineral biochemistry, and particularly as it relates to the so-called trace elements, that it will probably be years before the proposition can be stated one way or another with certainty, because even after the physiological functions of all of the known minerals have been established, there will still be a great deal remaining to be learned about the biochemical processes by which the body assimilates and utilizes the mineral elements which it requires. (7)

Until much more is known about the whole subject of nutrition, including the nature and function of all factors, both known and at present unknown, of the vitamin complexes and mineral components of natural foods, as well as the interrelationships and requirements, it seems most logical for the clinician to depend wherever possible, on natural foods or natural concentrates in his efforts to overcome possible deficiencies existing in the diets of his patients. Knowing that nature is never wasteful, it seems logical to the clinician to attribute some nutritional importance, either from a standpoint of meeting requirements or of assisting in the assimilation and utilization of required factors, to each of the known and unknown components of foods; and the fact remains that never in any item of food used by man or animals, is there ever a *single* vitamin or mineral factor to be found. (3)

The latest literature on nutrition is replete with reports of protracted research on the use of single synthetic factors, the results of which tend to cast doubt on the earlier claims of specificity which were advanced for them. These include an extensive bibliography of articles confirming the failure in animal experiments to duplicate with synthetic tocopherols, the earlier results obtained by researchers with the use of natural wheat germ oil. (5)

They also include numerous reports similar to a recent one by Drs. Walter B. Fromeyer and Tom D. Spies, who are associated with the University of Cincinnati's studies in nutrition at the Hillman Hospital in Birmingham, Alabama, which appeared recently in the American Journal of Medical Science. These doctors were pioneers in clinical experiments to confirm the earlier claims advanced for synthetic folic acid as a specific anti-anemia vitamin. In their latest report, these scientists advanced the opinion that the active principal in liver extract which combats or prevents pernicious anemia, is probably not folic acid but a very powerful, unknown factor of the natural vitamin B complex. (8)

The great advances of recent years in synthetization in the chemical laboratories now make it possible to combine practically all of the known vitamins and at least some of the mineral factors concerned in human metabolism into attractively labeled and inexpensive formulas. But only to the extent that they incorporate the unknown factors of nutrition and the related known and unknown factors of the various vitamin complexes, will they approach a duplication of the natural material which nature intended man to use as his daily nourishment; and at least until research sheds further light on the many remaining mysteries of biochemical processes, wisdom and logic seem to dictate reliance wherever possible upon natural sources of vitamins and minerals.

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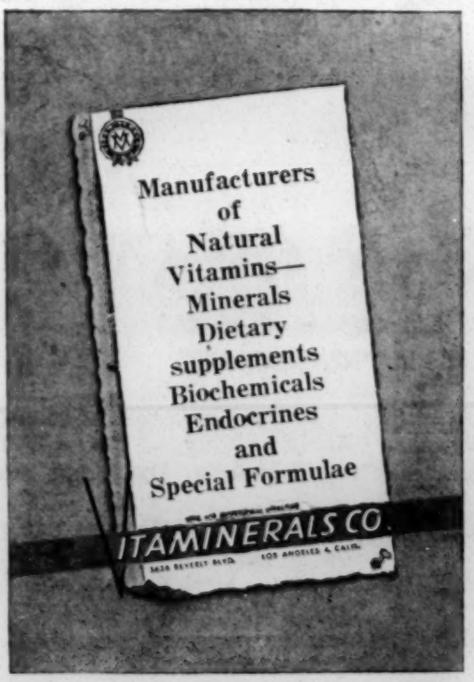

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China's Suicidal Factors at Work

A MIDNIGHT CRY (午夜呼聲)

OF all the materials requisite to the building of a solid national edifice, an ideal education—education not merely of the body, but of the mind, and above all, of the spirit—is the most essential. It constitutes the life blood of the nation, the cornerstone of the state and the lighthouse in a boisterous sea. Unless the masses possess such consummate education, a country can hardly be strong, far less healthy and stabilized. In a nation that clamors inopportunely for democratic government—"government of the people, by the people and for the people"—while the majority of the millions remain illiterate and a minority of the intelligentsia are sufficiently educated, the attempt to seek democracy resembles "climbing a tree to seek for fish" (緣木求魚), as quoted by Mencius. For this basic reason, in spite of her inception as a republic during the past 36 years, China remains essentially both dictatorial and aristocratic and far from democratic.

Suicidal Factor

In addition to the "old bottle," the vital and foremost suicidal factor which has created such a tragic mess in this country, as noted in the preceding article in the December 27, 1947, issue of the *Review*, our country has ruefully contracted another chronic malady, the infusion of western ideas, but not of western IDEALS, and possession of deficient education—education devoid of ethics, self-culture and discipline. With the birth of the Republic for which she was unprepared, followed by the exile of Confucianism to which she owed her survival, China has suicidally flayed her bone and sinew, the moral ethics and discipline. In the nutshell of Westernized education, intellectual and spiritual, she has retained the husk, the intellectual, but extracted the kernel, the spiritual cultivation.

Hence what is left is very little and there is no vitality in the education. What she possesses today is superficial, and it proves to be destructive carnal passions, egotism, greed and lust for power, which inevitably engendered dishonesty, corruption and despotism, characteristics phenomenal in the present government. Not only has this sort of education no intrinsic value in building up a strong and unified government, but it causes continued deterioration throughout the country.

To keen observers of the trend of our culture prior to the introduction of western learning, science and religion, the "atmosphere of education" (學風) was, from historic facts, indubitably much healthier than that prevailing in this country today. Cases of insubordination and restlessness among the students have constantly caused much headache both to the effete government and to the docile parents at large. In order to clarify the striking contrast between the old tutorial and the new academic systems of education, a brief survey of the past and present phenomena of the two schools is instructive.

Old Education System

As the basic factor that brought China to the forefront of ancient civilization, her primitive education based on the moral philosophy taught by the sages played a distinctively unique role. Under the tutorial system of education, the tutor could personally and intellectually reach and influence each and every pupil and maintain discipline enforced with corporal punishment, whenever warranted. Force had to be applied, when the horn was green. Besides learning the respec-

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tive characters and meanings of the Four Books (四書) and the Five Classics (五經), the fundamental learning required of the literati, every pupil was taught to observe and practice the moral philosophy of the Five Social Relations (五倫), viz., the relations between (1) sovereign and minister, (2) parent and child, (3) husband and wife, (4) elder brother and younger brother and (5) friends, which constituted the cardinal virtues and the moral arch of our social structure. With the above philosophy infiltrated into the minds of the youngsters, the average pupil had, at least, some sort of moral restraint and refrained from deviating from the moral precepts of the sages which the social public fostered, honored and maintained. As a consequence, (1) the minister became loyal to the sovereign; (2) the son filial to the parent; (3) the wife submissive to the husband; (4) the younger brother respectful to the elder brother; and (5) friend sincere to friend.

Through the channel of competitive examinations, metropolitan and provincial, the rank and file of the people, except barbers, tailors undertakers and yamen runners who were prohibited from participating, could enjoy the privilege of launching themselves into the harbor of officialdom and distinguish themselves as respective leaders of the provinces. Here existed one of the oldest forms of democracy where every competitor stood on an equal footing in the pursuit of honor and happiness.

People Made Docile

Under this system of education, the people were molded docile, courteous and peace-loving and, with the belief in resignation to fate, were perfectly content to live a homely life. So peace and prosperity reigned in the family, in society and in the government, until the neighboring aggressor stepped in, encroaching upon her sovereign rights and introducing the doctrines of so-called "unity," "liberty" and "equality" to the mind of the semi-educated people. From China's experience under the tutorial system of education, were the Chinese people as a whole not more comfortable and content and less miserable than today under the new school?

The academic system of education, if we wish to trace its origin, was initiated in 1905 immediately after the abolition of the metropolitan and provincial examinations of the "eight-legged essays" (八股文章). Schools and colleges of all descriptions sprang up as the "spring bamboo shoots after rain" (雨後春筍). The most ardent reformers in China anticipated that, by replacing the old with the new order, our country could keep herself with the times and cope with the Powers in the world. Unfortunately for China, the doctrines of "unity," "liberty," and "equality," products of Christianity," have been misinterpreted and abused! The youth imbued with such advanced doctrines may interpret them to mean authorization of a general lawlessness of conduct at home, in school and in public. So, while at home the old virtues of filial piety towards the parents were pushed into the backfiround, the newly wooed "sweetheart" won through free love was idolized as the queen of the family above the parents. However, love at first sight or immature love could be easily won and lost; consequently many a young man had inevitably been compelled to step into the shoe of westerners, the shoe of divorce, a shoe unheard of in the old school. Thus under the new school, the Chinese family tie which was so compact before is now loosened and alienated.

Cases of insubordination and nervousness among the students have been reported in the papers from time to time, and it was not infrequent that presidents, deans and professors were either expelled or made to resign by the student bodies be-

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cause these educators maintained discipline. Now a few of these students have their lessons in cabarets, movies and in houses where they have no right to go.

The recent agitation and demonstrations over the question of the Kowloon Incident and the blocking of traffic in the streets here are instances of students misinterpreting "liberty" and abusing law and order.

From the above instances, we are convinced that China today has not secured the very kind of education she vitally needs. Foreign education and western ideas are, however, fast undermining the cardinal virtues of Chinese domestic life. The thoughts and aspirations of the students today are relentlessly materialistic; because without the spiritual cultivation which China has deplorably ignored, they cannot be changed from the material to the spiritual plane. China has today reached the climax. The attempt to remove her evils, nepotism, graft, corruption and inefficiency, by abolishing the old school and replacing the new has tragically failed; and the change from monarchy into republic has launched her into no better harbor. Since Christ, the ageless example of disinterestedness and self-sacrifice, is the dynamic factor that has caused a mighty transition in the evolution of human character, as proved historically. Why should China neglect such a golden opportunity of "making hay while the sun shines?"

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THE AMERICAN ECONOMY

The Twentieth Century Fund's Report On The US

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(The editors of the REVIEW feel that some of the economic reporting done recently by the Twentieth Century Fund is of the greatest importance and interest. Various US magazines have described the Fund's work from time to time. Some time ago we read a BUSINESS WEEK report on one of the Fund's studies and, feeling that it was the best brief presentation we had seen in a size suitable for magazine publication, requested permission to reproduce it. We recommend it most earnestly to all readers.)

POPULATION

A nation's wealth depends more than anything else on the size and vigor of its population. Much of the increase in U.S. production during the past 100 years is a result of a rapid growth in population. This growth supplied manpower for farms and factories and provided an expanding market for consumer goods and services.

Growth was the outstanding fact about population before 1930. The birth rate was almost double the death rate and there was a heavy flow of immigrants. Between 1900 and 1930, the population increase averaged 15,000,000 each decade. Immigration contributed a third of the increase.

But this trend was checked by the depression 30's which stemmed the flood of immigrants and cut the birth rate by forcing postponement of many marriages. As a result, fewer than 9,000,000 persons were added to the population between 1930 and 1940. This was an important factor in prolonging the depression because it slowed the growth of consumer markets.

WARTIME MARRIAGE BOOM

WAR and postwar conditions have brought a boom in marriages. They have exceeded normal by more than 1,500,000 since 1940. There will be more newly-married couples in 1950 than ever before and the birth rate may be roughly 10 percent higher than in the early 1930's. So the 20th Century Fund looks for an increase of 12,000,000 in total population between 1940 and 1950 and a further increase of 10,000,000 in the 1950's.

This will mean a faster growing market for homes, autos, food, clothing, and other consumer items than we had in the 1930's. It will mean crowded schools and more people seeking jobs.

There are four major population trends which will affect markets in the 1950's:

1. The number of families will continue to increase more rapidly than the number of people as families grow smaller. This is significant because the market for housing, appliances, and many other things depends more on the number of families than on the number of people.

2. Our population will be getting older. But it will not be getting less productive because the proportion of the population between the ages of 20 and 60 will be higher than in past decades. Still, the most striking increase will take place in the number of people over 60—from 14,000,000 in 1940 to more than 20,000,000 in 1960. This will bring greater demand for medical services and social security. An important cause of this trend is our success in controlling communicable disease. The table at the top of page 329 shows how the death rate from selected causes has changed since 1900.

3. The population will continue to become more urbanized. Small and medium-sized cities will grow faster than the largest cities. The general westward migration which was accelerated by the war will continue.

4. Our people will keep on getting more homogeneous. There has been almost no immigration since 1929, so the number of immigrants who have been in the country for less than 20 years will make up less than one percent of the population in 1950 as against 10 percent in 1930.

An even more important factor in making the population all of a kind has been the growth of universal education. The proportion of children 14-17 years old attending high school doubled between 1920 and 1936. The rise of the radio, movies, and national magazines has also leveled us out. These developments not only raise the general educational level of the nation but also tend to standardize the public's tastes and attitudes.

LABOR FORCE

THE volume of goods and services produced by 145,000,000 persons in 1950 and 155,000,000 in 1960 will depend on what share of the population is in the labor market and the amount of work those employed actually do. The proportion of the population in the labor force has shown little change in the past few decades. So the 20th Century Fund assumes that the relationship between labor force and population will be about the same in 1950 and 1960 as it was just before the war. On this basis 60,000,000 people will be in the labor market in 1950 and 63,400,000, 10 years later.

However, there will be several important changes in the composition of the labor force. More women will be working. In 1870 only one out of every eight worked. By 1940 the proportion had grown to one out of four, and evidently will go on rising.

However, the increase in the number of women working will just about be offset by earlier retirements and longer schooling. This explains why there is little change in the ratio of labor force to population.

UNEMPLOYMENT

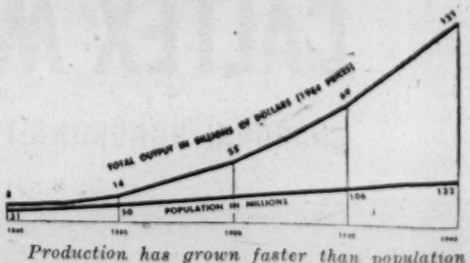
THE effectiveness of the labor force depends not only on its size but on how fully it is employed. We have never had full employment in the sense that everyone able and willing to work had a job at the same time. Even in good years unemployment has seldom averaged less than five percent of the working force because workers are always moving from job to job. And in 1932, nearly one fourth of all workers were unable to find jobs.

For this reason, the 20th Century Fund assumes that, even with good business in the 1950's unemployment will average five percent of the labor force. This works out to 3,000,000 unemployed in 1950.

In addition, the Fund expects the long down trend in average weekly hours to continue. A century ago, workers put in a 12 hour day for six days a week. By 1940 the average work week had declined to 44 hours in non-agricultural jobs and 52 hours in agriculture. If this trend continues, the average in non-farm jobs will be down to 38 hours a week in 1960, and farmers will work 48 hours.

Adding all this up, and allowing for vacations, absenteeism and sickness, the 20th Century Fund estimates that the US will put in 121,000,000,000 man-hours of work in 1950 and 118,000,000,000 in 1960. This compares with 105,000,000,000 in 1940 and with 154,000,000,000 at the peak of the war effort, the quantity of goods and services that

US ECONOMY FACES A CHALLENGE



Production has grown faster than population giving promise of rising living standards.

can be turned out with this amount of labor effort will depend on average output per man-hour, or productivity.

PRODUCTIVITY

THE key to our future economic welfare is productivity. It is the five-fold increase in output per man-hour that has made it possible for us to work shorter hours and still enjoy a rising standard of living. This increase in productivity has been accomplished not by working harder but by constantly inventing better machinery to supplement human energy with mechanical power.

Of course, in any specific factory at any given time, productivity depends largely on the willingness and ability of labor and management. But over the years, the actual effort of the individual worker becomes much less important than the effort of the machine. The most energetic and skilled blacksmith of a century ago could not remotely approach the productivity of today's semi-skilled worker operating automatic power-driven equipment.

In 1860, the average worker turned out $0.33 (in 1944 dollars) worth of goods in an hour. By 1940, this had grown to $1.22. This sensational increase in productivity was due to the increased use of power driven machines. In 1860, the average worker had the help of only half a horsepower of animal or mineral energy. In 1940, he had the use of 2.7 horsepower. To put it another way, if there had been no increase in the use of mechanical power since 1850, it would have taken 290,000,000 million workers to turn out the amount of goods and services actually produced at the peak of the war effort by only 63,000,000 workers.

DO MACHINES KILL JOBS

PAST history also shows that we need not fear the long run effects of the introduction of labor saving machines. On the contrary, the only way we can improve the material welfare of everyone is to continue and even step up the rate at which we save labor by using machines.

Development of the railroads and the automobile, for example, put a lot of canal boat and livery stable operators out of business. But it cut the cost of transportation and created many times more jobs than it eliminated.

No other economy has equalled ours in the ability to produce more and more with continually diminishing human effort. The test it now faces is whether it can eliminate the ups and downs in production and employment that have gone along with it. But an abundance of evidence indicates that we ran into trouble after 1929 not because we developed too many labor saving machines but because we didn't adjust our economic mechanism to keep the process going.

The key importance of mechanization is indicated by the fact that the increase in national production since 1860 closely parallels the increase in use of mechanical power. Between 1860 and 1940, both volume of production and use of energy multiplied about 11 times. It is clear that, in order to keep our standard of living rising, we must continue to apply more and more power to production.

Chief advantage of mechanical energy is, of course, its low cost. Electric energy is now delivered for as little as a cent a horsepower, while the same amount of human energy costs $10.

And there are other important advantages. Mechanical energy can be delivered in greater concentrations than any other form. It is also more convenient, compact, mobile, and controllable. Consolidated Edison in New York delivers enough electricity in a day to do the work of 3,000,000 draft horses.

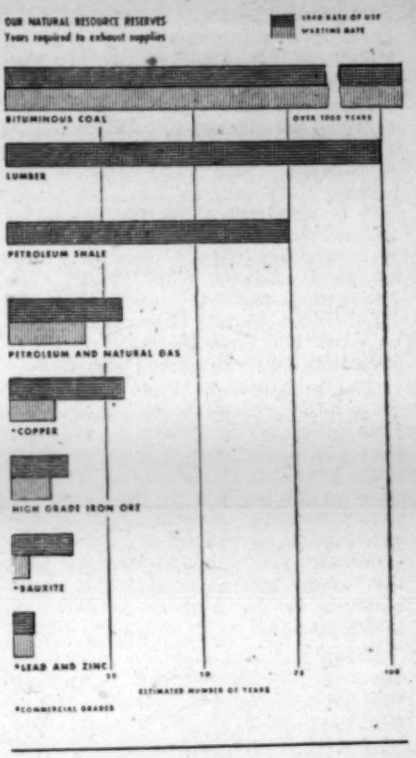
These advantages are now so universally accepted that it's hard to realize how recently we left the horse and buggy era. At the turn of the century, animals and men provided more than half the energy used in production and transportation. It wasn't until World War I that trucks replaced horses in local hauling and tractors began to invade the farms. The chart at the bottom of the page shows how the use of mechanical energy has grown since 1850.

PRODUCTIVITY IN THE FUTURE

ANY attempt to predict future developments in productivity is complicated by the fact that the changes do not occur at an even rate. Between 1850 and 1940 the average increase in output per manhour was 18 percent per decade. But the changes varied all the way from three percent between 1870 and 1880 to 42 percent for the decade ending in 1940. There is, therefore, no simple way to extend past trends to obtain a foolproof figure for productivity at a future date.

For purposes of this study, however, the 20th Century Fund assumes that the average rate of increase since 1850 may be projected to estimate output per manhour in 1950 and 1960. Thus, output per manhour works out to $1.44 in 1950 and $1.70 in 1960 as against $1.22 in 1940 (all in 1944 dollars).

As the Fund points out, this is a critical assumption, and it is further complicated by the fact that there is a wider possibility of error in this estimate than in most of the others in the study. If, for example, it is assumed that productivity will increase at the pace set from 1920 to 1940 which averaged 36 percent per decade, then 1960 production would be about double the 1940 level instead of only 157 percent of it, as the 20th Century Funds estimates.



TOTAL NATIONAL OUTPUT

THE potential volume of goods and services in 1950 and 1960 can be determined by simple arithmatic, using the assumptions already outlined. Of an estimated population of 145,000,000 in 1950, about 60,000,000 persons will be in the labor market and 57,000,000 of them will have jobs if we succeed in keeping business activity at a high level.

This many people would work 121,000,000,000 manhours. With output per manhour estimated at $1.44 (in 1944 dollars) the total value of goods and services produced, or the gross national product, would come to $177,000,000,000. Similar calculations yield a gross national product of $202,000,000,000 for 1960.

HIGHER LIVING STANDARDS

COMPARED with any prewar year, a gross national product of $177,000,000,000 in 1950 and $202,000,000,000 in 1960 would represent

	Total Energy Output	Mechanical Energy	Humans	Animals
	(Billions of Horsepower Hours)			
1850 ..	17.6	6	15	79
1860 ..	25.2	7	14	79
1870 ..	27.8	12	15	73
1880 ..	39.9	17	14	69
1890 ..	61.1	28	12	60
1900 ..	82.9	38	10	52
1910 ..	131.4	57	8	35
1920 ..	197.4	73	6	21
1930 ..	238.3	84	5	11
1940 ..	289.4	90	4	6
1950 ..	410.4	94	3	3
1960 ..	489.8	96	2	2

a handsome gain. It would make possible a substantial rise in living standards. In 1950 we would produce a fifth more than in 1941.

However, the volume of goods and services turned out in 1950 would be only slightly higher than present production. This is because the number of persons at work today is 2,000,000 above the estimated normal for 1950, and average weekly hours are higher than they will be then. Almost 1,500,000 of the emergency workers drawn into the labor force during the war are still at work and unemployment is lower than the figure assumed for 1950.

The estimates of 1950 and 1960 gross national product are expressed in 1944 prices. This is not a prediction that the price level will settle down to the 1944 level which would involve a drop of 18 percent in the cost of living and six percent in wholesale prices. It is merely a device to eliminate price fluctuations so that the figures will show only the actual changes in the physical volume of production.

Gross national product measures the total market value of everything the nation produces. All the goods and services produced are absorbed in one of three ways: by consumer expenditures; by expenditures for investment in capital goods or inventories; or by government expenditures.

HIGHER TAXES, LESS INVESTMENT

THE division of total output among consumers, investment, and government will be somewhat different in 1950 and 1960 than in the past. About two-thirds of total output will go into consumer goods and services. This is about the same as the proportion in prewar years.

Government's share will continue to grow, however. It rose from 11 percent of total output in 1929 to 17 percent in 1940. At the peak of the war effort, half of all production went to Uncle Sam. Government expenditures have dropped to less than half the war peak and they will continue to decline slowly. But government's share will still run to around 20 percent in the 1950's. On the other hand, the ratio of investment to total output shows a slight long term decline.

CONSUMER INCOME

US business can look forward to a 1950 consumer market twice as large as in the worst year of the depression, half again as large as in 1929, and one fifth larger than in 1941. That is the major conclusion of the 20th Century Fund's analysis of consumer purchasing power. Here are the steps by which it arrives at that conclusion:

1. With gross national product at $177,000,000,000 in 1950, past experience indicates that income payments to individuals would run to $138,000,000,000.

2. Income tax rates are assumed to equal the 1942 schedules, so individuals would pay $11,000,000,000 in taxes (as against $19,000,000,000 in 1946).

3. Savings are estimated at $12,000,000,000, or about nine percent of income after taxes.

4. Subtracting taxes and savings, consumer purchases of goods and services would total $116,000,000,000.

LOWER SAVINGS

MANY experts would criticize the assumption that savings will amount to only nine percent of income. Some of them look for a ratio as high as 20 percent in prosperous postwar years. The 20th Century Fund justifies the use of a low figures on three grounds: (1) people built up reserve of savings during the war; (2) expanding social security will reduce the need to save for old age; and (3) taxes will cut into savings. The Fund's estimates of savings plus taxes in 1950 adds up to a higher percentage of income than in prosperous prewar years.

The standard of living won't rise as rapidly as the total income going to consumers, because the increased income will be split up among more family units. But the average consumer unit (a family or a single person living alone) will be a third better off in 1960 than in the 1930's.

Shifts in the distribution of income will be even more important, from a marketing standpoint, than the general increase in overall consumer income. More consumer units will be in the over-$2,000 brackets than ever before and this group will be receiving a much larger share of total consumer income.

Part of the apparent increase in income is cancelled out by higher prices. To show the actual increase in purchasing power the figures should be adjusted for an estimated one-third increase in the 1950 price level over that of the mid-1930's. This would mean that a $2,650 income in 1950 would buy no more than a $2,000 income in 1935-36. Even if this adjustment is made the resulting figures still show a striking upward shift.

In addition to dollar income, consumers also receive "income in kind"—food and fuel produced by farmers for their own use, board and lodging received by domestic servants. Such income will have a value estimated at $3,300,000,000 in 1950, most of which will supplement the $7,700,000,000 received by those in the "under $1,000" bracket.

The urban market will continue to be far more important than the rural market. Consumer units in cities will receive cash incomes of $3,445 on the average in 1950, more than twice the farm average of $1,635 and almost twice the small town average of $1,880.

THE FARM MARKET

THESE figures don't provide an accurate measure of the relative importance of the rural and urban markets because rural consumers pay a lot less for food, fuel, shelter and so have more to spend for other things. If there were any way to adjust for these things, the figures would show a smaller spread between the two markets, but the urban market will still be dominant.

All these figures underline a general upgrading in consumer demands which would accompany high level production and employment. It will have a profound effect on marketing practices. The average person will eat better, dress better, and live in a better house with better equipment. And he will have more money to spend for travel, recreation, and luxuries.

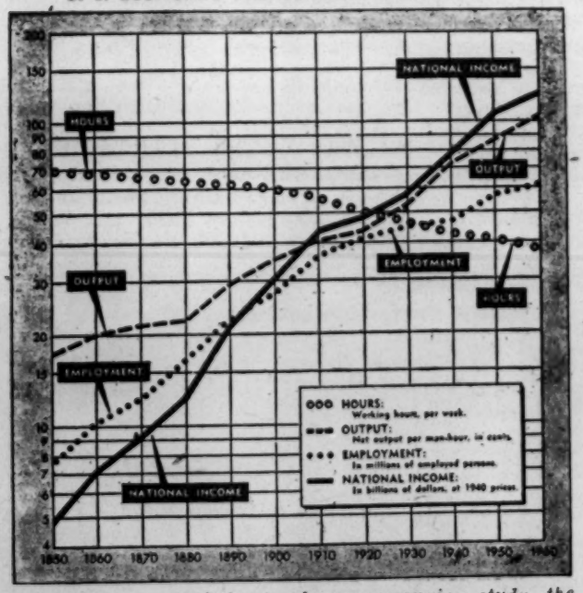
CONSUMER MARKETS

THE improvement in living standards during the 1950 decade will lead to important changes in the way consumers spend their dollars. Even though they will eat better, dress better, and live in better houses, a smaller share of the consumer dollar will be spent on food, clothing and shelter. A growing share will go for appliances, furniture, travel, and recreation.

This means that the fastest growing markets will be those providing what might be called "optional" goods and services-things which add to comfort and enjoyment but which are not strictly necessary. Markets for necessities, on the other hand, will expand at a slower rate than total consumer expenditures.

The growing importance of "optional" goods and services is one of the reasons why it's increasingly difficult to keep our economic machine going on an even keel. The

U. S. ECONOMIC TRENDS FROM 1850 TO 1960



Based on statistics in the accompanying study, the above chart projects the probable trends of the American economy more than a decade into the future. The course of a century is plotted.

WHERE CONSUMER DOLLARS GO
(Figures in Billions of Dollars)

	1909	1919	1929	1940	1941	(1944 Prices) 1950	1960
Total Consumer Expenditures	28.8	60.8	80.3	70.6	80.4	116.2	134.2
Food, Liquor & Tobacco	9.9	22.3	23.7	21.9	25.3	36.2	41.1
Food	7.4	18.8	19.9	16.4	19.0	27.2	30.8
Liquor & Tobacco	2.5	3.5	3 7	5.5	6.3	9.0	10.3
Clothing & Personal Care	4.4	9 8	12.1	9.8	11.5	16.2	18.7
Housing	6.8	10.1	14.4	12.6	13.3	19.3	21.4
Rent (a)	5.5	7.9	11 3	9.1	9.7	14.0	15.4
Fuel	1.0	1.5	1.7	1.7	1.8	2.5	2.8
Electricity	0.1	0 3	0.6	0.9	1.0	1.6	1.8
Household Equipment & Operation	2.8	6.2	10.6	8.7	10.3	15.0	17.4
Appliances	0.2	0.4	0 8	1.0	1.3	1.8	2.4
Consumer Transportation	1.6	5 2	8.6	7.3	8.6	12.7	16.4
Autos & Private Planes (b)	0.6	3.5	6.0	5.7	6.8	9.6	12.7
Local Bus & Street Car	—	—	0.8	0.7	0.8	1.5	1.5
Intercity Bus	—	—	0.1	0.1	0.2	0.2	0.2
Airlines	—	—	c	c	c	0.1	0.5
Railroads	0.4	0.8	0.6	0.3	0.3	0.4	0.3
Medical Care, Insurance, & Death Expenses	1.1	2.8	4.5	4.7	5.2	7.7	8.7
Recreation	0.9	2.1	3.8	3.3	3.7	5.7	6.9
Radio & Television Sets	0.2	0.7	1.0	0.6	0.8	1.1	1.3
Private Education, Religion, & Welfare	1.2	2.2	2.7	2.3	2.4	3.4	3.7

a. Includes Estimated Rent for Owner-Occupied Homes.
b. Includes Original Cost & Operating Expenses.
c. Less than $50 Million.

purchase of "optional" goods can be postponed with little hardship. So anything that causes people to put off buying a new car, a new house, or a new radio has a far greater effect on production and employment now than it did when the major share of the consumer dollar went for necessities.

Some of the trends in major markets are summarized in the following sections.

FOOD

ALTHOUGH food is by far the largest item in the consumer budget, its relative importance is declining slowly as living standards rise. People eat the same number of pounds of food they ate in 1909 but the food is better from a nutritional standpoint and easier to prepare. Thus, the trend favors fruits, vegetables and dairy products as against meat, potatoes and bread.

More and more food is being processed in factories rather than in consumer kitchens. Improved methods of manufacture and distribution have transformed the luxury foods of yesterday into the standard foods of today. New kinds of processed foods—canned, frozen and dehydrated—are appearing constantly.

CLOTHING

THESE long term trends will shape the clothing market in the future: (1) the shift from home and custom to factory fabrication is almost complete: (2) synthetics, chiefly rayon and nylon so far, are replacing cotton, wool and silk at an accelerating pace; (1) there's greater standardization of styles and a trend to lighter and simpler clothing.

In 1909 consumers spent 14 percent of their income for clothing but by 1940 the ratio had reclined to 12 percent. However, this long run decline may be halted or reversed. The migration from farms to cities, the upgrading of incomes and the growing demand for sports clothing will increase clothing expenditures.

HOUSING

THE decline in the relative importance of housing expenditures —from 24 percent of consumer dollars in 1909 to less than 18 percent in 1940—is expected to continue. The reason is that people feel they get more value for their dollars in other things than housing. Nevertheless, the housing market should be much larger in the 1950's than in the 1930's because much of our housing needs to be repaired or replaced.

A Census survey in 1940 showed that 16,000,000 of the nation's dwelling units needed to be replaced or needed major repairs. The 20th Century Fund estimates that the provision of adequate housing for everyone by 1960 would involve building 20,000,000 new units and rehabilitating 5,400,000 at a total cost of $115,000,000,000 (1944 prices). The Fund also estimates that we will fall 15 percent short of this goal even with continued high level employment.

HOUSEHOLD EQUIPMENT

MORE and more of the consumer dollar has gone for household equipment in the past four decades, largely because of the development of labor-saving appliances. The outlook is for a continuation of this trend. New appliances are being developed; and the large number of new houses slated to be built in the next few years, the wartime and postwar boom in the number of families, and the migration to the cities should add to appliance demand. The same factors should brighten the outlook for furniture, rugs, and other household items.

Some appliance markets may be saturated by the 1950's, however. A few years of high production would fill our homes with refrigerators, for example. However, replacement demand would run to 2,700,000 units in 1960 and there would be a demand for 1,300,000 refrigerators to equip new houses, so the market would still be bigger than in 1941 when 3,600,000 were sold. However, new products must be developed if the industry is to keep up the pace it has set in the past.

TRAVEL

IN 1918 the average person traveled 400 miles. By 1940 the average had grown to 2,400 miles, chiefly because of the rise of the automobile. The 20th Century Fund expects this growth to continue because as their incomes rise people spend more money traveling.

A good share of the increased spending will go to purchases of cars and planes. The Fund estimates that there will be 36 million cars on the road and 100,000 private planes in the air in 1950. The auto industry would be able to sell 5,000,000 new cars a year after 1950, 4,000,000 for replacement and 1,000,000 for population growth.

CAPITAL INVESTMENT

INVESTMENT plays a crucial role in our economy for two reasons. It is by plowing back part of our annual output that we are able to provide better machines and equip-

ment to keep productivity rising. But the amount ploughed back varies widely from year to year. This unevenness of capital investment contributes to the instability of production and employment.

Because capital investment involves the purchase of durable goods, it can be postponed almost indefinitely when the outlook for profits darkens. Thus, capital investment plummeted from $18,000,000,000 in 1929 to $5,000,000,000 in 1933, a drop of 72 percent, whereas consumer spending fell only about half as fast in the same period.

MORE FOR EQUIPMENT

THERE has been an important shift in the relationship between construction and equipment, the two major types of investment. Before World War I, construction made up around three fourths of total investment but the ratio declined to less than half in 1935-39. Part of the decline is, of course, explained by the fact that the depression left us with ample plant capacity but provided an incentive to buy more efficient machines to cut costs. Nevertheless, there is a well defined trend towards allocating an increasing proportion of investment to equipment rather than to plant construction.

A little less than two-thirds of total investment goes into industrial plants and equipment. Housing and other consumer construction (hospitals, schools, churches) averaged 27 percent of total investment during the interwar period. Housing fell from a peak of $6,000,000,000 in 1926 to $4,700,000,000 in 1929 and $600,000,000 in 1933; and it had recovered only half the 1926 volume by 1940.

While other types of investment follow the ups and downs in general business, investment in housing construction follows a cycle of its own. This housing cycle is determined by factors such as the vacancy rate, the level of rents, and that of construction costs, which may not follow the trend of general business. When a drop in general business activity takes place during a declining phase of the housing cycle, as it did in 1929, the result is a deep and prolonged depression.

Government investment, of which the largest component is highways, has been much more stable than other types but it doesn't swing enough weight to stabilize total investment.

Because of the wide fluctuations in capital investment, it is much more difficult to estimate future capital expenditures than future consumer purchases. In order to make a relatively stable forecast, the 20th Century Fund bases its estimates on the long term since 1879, which shows a slight decline in the share of total output going to capital investment. Thus, investment under conditions of stable prosperity in the 1950 decade is estimated at 16 percent of total output as compared with a ratio of more than 18 percent in the late 1920's. On this basis, estimated capital expenditures work out to $28,000,000,000 for 1950 and $33,000,000,000 in 1960. Our ability to maintain high employment and rising living standards will depend in large measure on our ability to invest that much profitably in new machinery and buildings.

CAPITAL NEEDS

ANALYSIS of our capital needs lends little support to the idea prevalent during the 1930's that we had reached economic maturity so that there was no way to invest as much as we had in earlier decades. No one has ever made an estimate of how much it would cost to modernize our industrial plant, which is valued at around $200,000,000,000 at prewar prices. If as much as a third of it needs to be replaced or rehabilitated, around $100,000,000,000 (current prices) of additional investment will be required.

In addition, huge amounts of money need to be invested in housing and public works to raise the services provided merely to adequate levels. The 20th Century Fund estimates that the cost of a 15-year program to modernize our city streets and rural highways would run to $40,000,000,000. To bring the nation's housing up to minimum standards of health and decency by 1960 would cost $115,000,000,000. To conserve our natural resources and develop our water power would cost

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WHERE INVESTMENT DOLLARS GO
(Figures in Billions of Dollars)

	(Annual Averages) 1920–1924	1925–1929	1930–1934	1935–1939	1940–1944	(1944 Prices) 1950	1960
Total Capital Investment	$12,428	$17,186	$8,215	$10,445	$12,340	$27,700	$33,000
All Industries	7,570	10,112	5,272	6,889	8,089	17,800	21,125
Manufacturing	1,996	2,362	1,074	1,610	3,731	4,200	5,025
Food	261	357	194	244	—	228	273
Textiles	227	212	92	117	—	175	210
Steel	138	188	110	192	—	853	1,021
Autos	105	150	78	146	—	369	441
Chemicals & Petroleum	70	95	68	142	—	928	1,111
Machinery	—	—	—	28	—	180	216
Other	510	625	213	409	—	1,462	1,750
Transportation	1,797	2,303	1,277	1,822	805	4,300	5,100
Commercial	1,196	1,940	777	719	833	1,950	2,300
Utility	693	999	483	422	780	1,500	1,625
Other	1,888	2,508	1,661	2,316	1,940	3,950	4,700
Consumer Construction	3,806	5,557	1,547	2,256	2,912	7,200	8,255
Government Construction	1,052	1,517	1,396	1,299	1,338	2,700	3,620

$27,000,000,000 over a 15-year period.

There seems to be little question that needs exist for all the capital investment we can make for a long time to come. The behavior of investment in the past strongly suggests that the problem is not one of lack of needs but one of finding ways to add to our capital in an orderly fashion. Capital investment has followed the boom and bust route in the past; what is wanted is a high but steady rate of investment.

WARTIME INVESTMENT DEFICIT

DEMAND for capital goods is stronger right now than ever before, largely because of the backed-up needs arising out of the war. Chart at top of page shows how wartime expenditures for capital goods which can be used in peacetime production compared with expenditures in the last five years of both the 1920's and 1930's: (Figures in billions of dollars).

ADJUSTED TO WARTIME PRICES

Wartime restrictions held investment in all civilian lines far below what would be spent in prosperous peacetime years. Thus, there was a backlog of investment needs at the end of the war which ran to more than $30,000,000,000 if the 1925-1929 demand can be taken as typical. Whatever the precise size of the backlog, it is clearly great enough, when added to the normal yearly demand for new investment, to keep the heavy goods boom going for some time to come. The test of our ability to stabilize capital investment will come later.

There is also a huge foreign demand for American capital. How far we will go toward meeting this depends largely on whether international, political and economic conditions are stable enough to make private foreign investment a good risk.

If we invest abroad in the same proportion we did in the late 1920's, our foreign investments will total $1,600,000,000 during the year 1950 and $1,500,000,000 in the year 1960. This will mean a net increase in our foreign holdings of $15,000,000,000 during the 1950's raising the total of such holdings to about $25,000,000,000 as against a total of $10,600,000,000 in 1940.

To make that much foreign investment pay out, an expanding volume of world trade would be required. Foreign nations would have to get enough dollars not only to pay for goods they bought from us but also to pay interest and dividends on US investments. If our overseas investments increase to $25,000,000,000 by 1960, annual interest and dividends owed us will run to almost $1,750,000,000.

To pay us that much, foreign nations would have to sell much more in the US than ever before. The 20th Century Fund calculates that imports of $7,300,000,000 in 1950 and $8,100,000 in 1960 would provide other countries with the dollars they need. Imports ran to $2,500,000,000 in 1940 so we would have to buy three times as much abroad to keep expanding our foreign investments.

With good business, US demand for imported goods should be well above prewar. Rising living standards will widen the market for such consumer items as British tweeds and French perfumes. Moreover, we will need to import more raw materials than ever before because we used up our natural resources at a prodigious pace during the war.

NEW INDUSTRIES

THE new methods, materials and products developed during the war may well have a more profound and lasting effect on future capital requirements than the backed-up demands accumulated in wartime. Here are some of the wartime developments which may have important peacetime applications: new chemical processes and products including synthetic rubber, plastics, synthetic fibers and fabrics; new food products and new methods of food processing; new uses for glass, plywood, and the light metals; tremendous advances in aviation, and new applications of atomic energy and fissionable products in power production and medicine.

Large capital expenditures will be required to push these developments further and adapt them to civilian use. New businesses and perhaps entire new industries will grow up, adding to the demand for capital goods for many years.

THE COST OF GOVERNMENT

TO the traditional certainty of death and taxes can be added the certainty that the cost of government will take a much larger share of national income than ever before in peacetime. After the Civil War and again after World War I, federal expenditures moved up to a level four times prewar. And it is already clear that World War II is going to have about the same effect.

In 1940, federal state and local governments spent $19,000,000,000 of which a total of $2,200,000,000 went for national defense, veterans and interest on the war debt. By 1950, the 20th Century Fund estimates that all government units in the US will be spending more than $45,000,000,000. Federal expenditures are estimated at $27,600,000,000 in that year as against $9,000,000,000 in 1940.

Part of the increase is explained by higher postwar prices. Adjusting for price changes would reduce the 1950 figure from $45,000,000 to $33,500,000,000. This is still 80 percent above the 1940 level. Increased expenditures for public works, social insurance and schools explain another small part of the rise.

But costs arising out of the war are by far the most important factor. Military and veterans expenditures and interest on the war-swol-

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A "SPECIFIC" VITAMIN IS NOT SPECIFIC THERAPY

A story published in the interest of better health for all

It's too bad—but it just isn't that easy. A nice, little straight shot of vitamin B1, or A, or C, isn't going to correct Mrs. Smith's deficiency condition, resulting from poor dietary habits.

There has been much conversation—and very little understanding—about so-called "specifics." Let's take vitamin A, as an example. Vitamin A is essential to clear vision and prevents night blindness. It is essential to the maintenance of the covering and lining membranes of the body—skin, linings of the stomach, wind pipe, nose, eyelids, etc. It is also essential to proper tooth enamel.

A case history shows that Mrs. Smith is susceptible to infection—she is always having colds or the "flu." She tells the doctor about her intestinal disorders. She complains of weakness. Her teeth are bad—and she is always going to the dentist. Her eyesight isn't what it should be.

So, the good doctor diagnosis this case as one needing vitamin A. Lots of A—25,000 unit capsules. He says A is a "specific" for Mrs. Smith's condition. Mrs. Smith takes the straight A and is somewhat relieved. But she still complains to the doctor of digestive disturbances, she still catches colds easily, and she is still weak. Also, her gums remain sore.

What's wrong with this picture? Vitamin A is certainly essential to Mrs. Smith's health, and her symptoms seem to indicate a deficiency of this vitamin. Yes, but the doctor could give Mrs. Smith a whole quart of vitamin A a day as a "specific" for unhealthy mucous membrane, and it wouldn't clear up her condition unless she were also getting vitamin C in her foods, or in tablet form.

Because a lack of vitamin C can also be responsible for Mrs. Smith's intestinal disorders, poor resistance to infection, defective teeth, bleeding gums and weakness. Note the similarity of these symptoms to vitamin A deficiency symptoms.

A deficiency of vitamin B complex can also cause Mrs. Smith's digestive disturbances, and feeling of weakness.

A vitamin D deficiency can cause Mrs. Smith's poor teeth and feeling of weakness.

A vitamin G deficiency can cause Mrs. Smith's digestive disturbances and weakness.

And we could go on into the minerals, and show you how an iron or an iodine deficiency always cause weakness, etc., etc.

Where is this much talked about specificity? You won't find it in nature. Nature is not specific! *All* the vitamins are necessary to mankind—all of the time. *All* of the vitamins are distributed throughout *all* foods. If Mrs. Smith doesn't like, and won't eat, dairy products—milk, butter, cream, and cheese, nor eggs, spinach or liver—she will not only be deficient in vitamin A, but when she passes up the helping of liver and spinach she is also depriving herself of *vitamin B1*. When she won't eat eggs, liver, milk, or spinach, she is losing a source of *vitamin C*. She is depriving herself of *vitamin D* when she won't eat liver, milk, butter, cheese, cream and eggs. And she is missing good amounts of vitamin G when she doesn't eat those foods and spinach. There's *niacin* in liver, eggs, and milk; *vitamin B6* in eggs, butter and liver; *vitamin E* in eggs; *K* in eggs, liver and spinach; *calcium* in cheese, cream, eggs, milk and spinach; *iodine* in butter and spinach, and *iron* in eggs, liver, cheese spinach.

Nature isn't "specific", and, apparently, she doesn't intend us to live on any such basis. Let's get back to first principles in the science of nutrition. After all, the word "specific" is foreign to the field of natural healing. It properly belongs to the drug field. A specific is more often nothing but a palliative, effecting only a temporary alleviation of a condition and not getting at and *correcting the cause*. Castor oil is a specific for constipation—but it never cured it. Aspirin has never cured the cause of chronic headaches. Phenobarbital doesn't *correct* chronic nervousness. Digitalis doesn't cure heart trouble. Bicarbonate doesn't correct chronic "heart burn." These are "specifics." They belong to the old school of medicine—the school which, in this modern day and age, is being outmoded by the newer schools of corrective, *nutritional therapy*. And "specifics" and nutritional science won't mix!

Every one of the vitamins and minerals are essential to Mrs. Smith's well-being, all of the time. True, she may be somewhat more deficient in one vitamin than another, but you can bet your bottom dollar that as long as all foodstuffs contain not one—but many vitamins and minerals—Mrs. Smith is going to have a multiple-vitamin deficiency whenever she "gets off the beam" in her eating habits.

VITAMINERALS' formulae are based on these established principles. They are the only products, comprising a line available to the doctor and public today, which are sound from a scientific, nutritional angle. The world is full of novelty items, single-vitamin products and a hodgepodge of opportunistic odds and ends.

VITAMINERALS OFFER specific *therapy*—not specific vitamins. The specific vitamin story is spurious. The big boss, Nature, says it is. Let's line up with the bio-chemical, nutritional, biological facts! We can't lose—we can only win—because multiple therapy is the only therapy that will produce *complete results*.

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len national debt will add up to over $17,000,000,000 in 1950. This is only 10 percent less than total government expenditures in 1940.

The only major category of government expense which would be lower in 1950 is welfare. With high-level employment and more social insurance, relief and other welfare costs should run to $2,500,000,000 in 1950 as against $3,000,000,000 in 1941.

The following paragraphs describe important trends in the major items of government expense.

MILITARY

THE 20th Century Fund assumes that we will maintain an armed strength of 2,000,000 men (including trainees) and that it will cost $3,300 to equip and maintain each man, so total military expenditures will run to $6,600,000,000. But even if we decide to maintain a smaller armed strength, the total cost might easily be at least $6,600,000,000 because the present serviceman cost of over $6,000 a year may not decline.

VETERANS

IT will cost at least $2,900,000,000 to take care of veterans in 1950 even if benefits are not increased. That's five times the 1941 cost. Pensions for World War I veterans rose steadily from $116,000,000 in 1924 to over $300,000,000 in 1945. That rise will continue for another 20 years. By far the largest expense will be for World War II pensions which are already costing $900,000,000. Disability and death benefits will cost about $1,750,000,000, in 1950; hospitalization will add another $250,000,000; and insurance $150,000,000.

SOCIAL SECURITY

FUTURE expenditures for social security will depend on whether steps are taken to extend coverage and liberalize benefits. Over 60,000,000 people are now covered so the cost is certain to increase rapidly as more of them begin to draw payments. With high level employment in 1950, estimated old age and unemployment benefits under the present system would run to over $5,000,000,000. Expansion of benefits, as recommended by the Social Security Board, would raise the cost to over $9,000,000,000.

PUBLIC WORKS

EVEN an economy-minded Congress is almost certain to go along with expenditures for highways, airports, waterways, flood control and conservation. Thus, an increase in expenditures for transportation and natural resources from less than $2,500,000,000, to over $5,000,000 in 1950 seems probable.

SCHOOLS

EDUCATION ranks third among all government expenditures. In 1941 we spent almost $2,500,000,000, 10 percent of all government dollars —on schools. Teachers' salaries account for almost three quarters of the total cost so the trend towards higher salaries will boost the nations' bill for education.

NATURAL RESOURCES

THE war left the US with a depleted supply of most natural resources and with critical shortages of some of the most essential minerals. Nevertheless, lack of natural resources should not be a limiting factor on our productive capacity. With relatively free access to world markets, we should be able to get all the raw materials we need. And, even if we were denied access to world markets, we could use our low-grade resources and develop substitutes without causing a prohibitive reduction in our living standards, though everyone would feel the effects in one way or another.

The US economy consumes about 1,500,000,000 tons of raw materials each year, or about 11.5 tons per person. Of this 3.5 tons are coal, 1.5 tons are petroleum, and iron and copper ore each contribute about a half a ton. In 1939 the value of unrefined minerals output was $4,200,000,000 and two percent of all workers were engaged in mining or lumbering.

The level of industrial production projected by the 20th Century Fund would raise mineral requirements a third above 1940 by the year 1950 and 50 percent above 1940 a decade later. Table at bottom of page shows how natural resources requirements in the 1950 decade would compare with 1940 and the wartime peak; (Index numbers, 1940 equals 100).

BIGGEST PROBLEMS: LEAD, ZINC

COMMERICAL grades of zinc, lead and bauxite will be exhausted before 1960 even if the rate of use is cut to half the wartime rate. Supplies of petroleum and natural gas—which furnish 40 percent of our energy—will last longer than 20 years but their partial depletion will raise many technical and economic problems long before that time. Possible exhaustion of high grade deposits of such minerals as iron and copper in the foreseeable future will stimulate development of processes to use low grade deposits.

We have been discovering more and more ways to stretch our supplies of natural resources, however. In the case of tin, the electroplating process saves 50 percent of the tin used in tinplate production. The electric power industry uses less than 40

Natural Resources	Wartime Park	1950	1960
All Minerals	138	133	151
Metals	157	177	126
Fuels	130	141	164
Other	141	128	142
Lumber	126	93	76
Electric Power	159	173	224
Manufactured Gas	120	94	75

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percent as much coal per Kwh now as in 1920. The development of new materials and new ways of using old materials also expands our resource capacity.

Our bituminous coal reserves are adequate for over 1,000 years even at the wartime rate use, though production costs might rise substantially as inferior coal beds were used. After that, there are huge deposits of subbituminous coal and lignite which could carry us along for another 1,000 years. In comparison, maximum petroleum reserves are minute, adequate only for about 30 years consumption at the current rate. That is why the experts are trying to find ways to produce oil from coal cheaply enough to be commercially feasible. Even though we have been using up lumber faster than it grows, there is little doubt that enough will be available in the future to meet at least minimum needs. Annual timber growth runs to about 32,000,000,000 board feet. But we cut even 40,000,000 board feet a year before the war and lost another 6,000,000,000, through fire, insects, and disease. An adequate conservation program could increase annual growth enough to offset this depletion.

INDUSTRIAL CAPACITY

AT the end of World War II US industry found itself with surplus capacity in some lines and serious deficiencies in others. There was more than enough aircraft, machine tool, and synthetic rubber capacity but not nearly enough sheet, steel, copper, or electrical machinery capacity to meet pent-up demands.

War experience showed, however, that industrial capacity can be expanded enormously in a few years, given the need and the funds. Thus, lack of industrial capacity should not prove a bottleneck to meeting the demands of consumers in the 1950 decade.

A rough estimate places our total investment in industrial facilities (manufacturing, mining, transportation, and distribution) at $200,000,000,000. Just how much capacity industry as a whole, or any given industry, has it impossible to measure.

Capacity is a most elusive concept. In a technical sense, the capacity of an industry is the combined production of all its plants working 24 hours a day, 265 days a year, less an allowance for repairs, breakdowns, and other technical factors. Actual capacity is far less, however. Some facilities are obsolete or high-cost. Supplies of raw materials and components may be insufficient to keep assembly plants running full-steam. Moreover, demand for many products isn't great enough to support round-the-clock production.

PLENTY OF CAPACITY

DURING the past quarter century, experience shows that we have had more than enough overall capacity, and more than enough capacity in almost every industry,

to meet all demands. An extensive study showed that even in 1929 only the steel and machine tool industries were definitely operating at capacity.

The growth of productivity as old machines are replaced with new and more efficient ones and as new techniques are developed is one of the main reasons why industrial capacity more than ever keeps pace with markets. The depression of the 1930's led to a net retirement of about five percent of total manufacturing facilities but manufacturing plants in 1939 could have turned out a quarter more than in 1929 because productivity was a third higher.

Whenever an industry's output begins to approach technical capacity, it becomes profitable to purchase new and more efficient equipment to replace or supplement existing machines so that a certain amount of excess capacity seems to be inevitable in a free enterprise system.

Estimates of the level of industrial production in different lines under conditions of high level employment during the 1950 decade are shown in the chart. They assume that past trends will continue so that they give only a rough idea of what would happen to output in each industry. Unpredicatble shifts of consumer demand or new product developments might cause a big change in the pattern of industrial production. Such estimates are, nevertheless, useful in that they provide a clue to lines where the largest increases may take place.

None of the projected increases are so large as to tax our ability to provide enough capacity. This is not to say that there will be no bottlenecks because of lack of capacity for certain components, for instance. However, we should be able to make good in short order any deficiencies of that sort that may develop.

DEMANDS VERSUS NEEDS

DESPITE the substantial increase in living standards which would be possible with high level production and employment in the 1950 decade, many US. consumers will be unable to buy enough of life's necessities to maintain themselves at a health and decency level. Almost 30-percent of all families would receive less than $1,000 a year cash income and one third of this group would receive less than $500.

The 20th Century Fund asked a series of experts to estimate the quantities of food, clothing, housing, medical care, and other things needed to provide a standard of living at a minimum health and decency level. The experts also figured out how much it would cost to bring everyone expected to be below that standard in 1950 and 1960 up to the calculated level. In other words, the estimates show the cost of establishing a "floor" for consumption without disturbing the spending patterns of those who received more than enough income to satisfy the calculated minimum needs.

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	1942	1900
Diseases of heart	295	137
Cancer and other malignant tumors	122	64
Influenza	56	202
Tuberculosis	43	194
Diarrhea and enteritis	9	143
Whooping cough	2	12
Diphtheria	1	40
Measles	1	13
Typhoid and paratyphoid fever	0.5	31
Scarlet fever	0.3	10
Other	505.2	873
	1035.0	1719

	1925-1929	1935-1939*	1940-1944
Total Capital investment	$86	$65	$49
Industrial	51	43	32
Manufacturing	12	10	14
Metals, chemicals, machinery petroleum	6	6	11
All Other	6	4	3
Commercial	10	5	3
Railroads	5	3	3
Electric Power	5	3	3
Consumer Construction	28	14	12
Public Works	7	8	5

ESTIMATES OF NEEDS

ANY estimate of "needs" must rest upon someone's opinion as to what constitutes "health and decency" in this day and age. In the case of food, the nutritional requirements of a minimum health and decency standard can be determined accurately. In other fields, such as housing and education, even the experts would disagree over what constitutes a minimum standard.

However, what is important is not the precise size of the estimates but their general magnitudes. The conclusion that we would have to spend about 50 percent more on medical care than we are likely to in 1950 is important even if the experts' appraisals of the deficit range from as high as 60 percent to as low as 40 percent. This manner would require production of $200,000,000,000 of goods and services in 1950 or 13 percent more than the $177,000,000,000 which would be turned out with high level production and employment. In 1960, estimated production would fall short of needs by eight percent. Food accounts for the biggest share of the deficit but needs outrun demand by important margins in housing, medical care, education, and social security.

To provide nutritionally adequate moderate-cost meals for those unable to afford them would add $5,500,000,000 to the $27,200,000,000 that would actually be spent on food in 1950. This assumes no change in diets of those with adequate incomes despite the fact that many people in those groups do not eat what they should. If we all ate what we needed, we would consume twice as many fresh vegetables as in 1940, half again as much milk, more fruit and tomatoes; and we would eat smaller quantities of sugar, sirups, fats, and oils. This better diet would cost us less than we will actually spend for food in 1950.

So large a portion of our existing housing is unsatisfactory by any reasonable standards that it would take 10-15 years to provide everyone with adequate housing. One of the reasons why we don't have adequate housing is that many consumers cannot afford to pay enough rent to finance it. Estimated expenditures in 1950 for rent (including the estimated rental value of owner-occupied homes) would run to $14,000,000,000 as against an estimated need of $16,400,000,000.

Vast advances in medicine have gone far toward eliminating many diseases and have brought about a steady improvement in the standard of health. However, large numbers of people in the lower income groups cannot afford adequate medical care. Moreover, to supply good medical care for everyone under the traditional fee-for-service basis would cost several times more than consumers have ever spent for medical services even in prosperous years. Development of an effective form of group medicine, however, would make it possible to provide adequate care at a great saving over present costs, according to the 20th Century Fund.

The major conclusion of the 20th Century Fund's survey of America's needs and resources is that we have reached a point where we can provide everyone with a decent living and most people with a living which, by any standards other than our own, is positively luxurious. With high level employment, it would take only a 13 percent increase in total output in 1950, and an eight percent increase in 1960, to lift everyone to a mininimum health and decency standard of living.

We have more than enough industrial and agricultural capacity to support that much of an increase in total production. Lack of natural resources should not be a bottleneck, for with world trade on any sort of a reasonable basis we will be able to get all the raw materials we need. The only limiting factor is the capacity of our labor force to produce. The 20th Century Fund assumes that productivity will advance at the average rate actually achieved during the past nine decades (18 percent). But there is no technical reason why we cannot achieve an increase of more than 30 percent. That would make possible enough production to meet our minimum needs.

The US economy has exhibited two dominant characteristics in the past century. Our productive capacity has expanded at a rate never approached elsewhere. But our economy has also been highly unstable. Our problem is to make the most of our unparalleled technological and productive know-how while minimizing the swings of the business cycle.

If we can meet that challenge, we can eliminate the specter of want and move on toward constantly rising living standards for everyone. Never before in history has a nation been so close to abolishing poverty and meeting material demands of its citizens.

This is not to say that solving the problem of maintaining stable and expanding production would solve all our economic, social, and political problems. Nor is it to say that a solution of the problem of keeping our economic machine running on an even keel, is at hand.

In the first place, the US would not be a utopia even if we achieved the kind of high employment and production the 20th Century Fund is talking about. Many perplexing problems of how to best distribute our production would remain. Then there are a host of social and political problems which would still tax our efforts and ingenuity. Finally, there is the all important question of how to maintain world peace.

Most people would agree that the problem of maintaining high employment and rising living standards is still far from solution. Our ability to mobilize and direct our economic resources so as to keep our economy running on an even keel has lagged behind our ability to solve technical problems of maintaining high employment. Each employer, each worker, and each consumer must somehow learn to act differently in many ways than he has in the past if we are to solve our Number One economic problem.

Just what changes in our economic life will be necessary no one knows. On our ability to find out these things and put them into practice in the next few years depends our success in meeting the challenge which the 20th Century Fund's study underlines. That challenge is that we have within our grasp the ability to eliminate actual want from the US and to provide more and more things for better living for everyone.

AN EYE FOR AN EYE

REALITIES VS. DIPLOMACY

Jacques Decaux

Special Correspondent, The China Weekly Review

DECISIONS regarding the organization of peace should be restudied from scratch. The fundamentals of the Italian treaty will have to be revised—Trieste, colonies, reparations. The control commission in Berlin is definitely thought in Moscow to be outdated, and Russia feels it should be dissolved. The partition of Palestine has been discarded by the same powers which were in favor of it two months ago.

Many people feel that these political turn-abouts are purely the result of Russian non-cooperation. However, they can also be partially explained by the dramatic tendency of the Big Five to indulge in seemingly absent-minded improvisation. The Trieste statute was nonsense—historically, politically and economically. So was the Berlin statute, for a measure of agreement between the occupying powers was needed there which was never obtained—before or after it was put into effect. The partition of Palestine, as is the case with any other policy for that matter, could be considered a rational decision only if some force had been designated at the time it was made to ensure its being carried out. It would seem that all these major questions had been debated in the high circles of the deciding powers as if they were theoretical philosophical or ethical problems. And now, because they were taken so lightly, the realities are retaliating, striking back just as if nothing at all had been done to settle these issues during the past three years.

The big nations are at their poker game again. The stakes are shadowed by the enmity of the two blocs. Before the last war there was a certain amount of predictability in international politics; one could weigh the different national tendencies. There used to exist a certain equilibrium between nations, perhaps unstable at times or unfavorable to some, but the risks could still be calculated with some degree of accuracy. Nowadays nothing looks sure enough to base any critical argument upon. As an example, two election campaigns may change completely the face of the earth in a few months time—the recent Italian elections and the US presidential elections this fall.

The Italian elections were extremely important in Europe because the political defeat of Communism has meant that Italy may become an advance base for the United States, as the Communists have frequently pointed out. The US will have to build a strong Italy, primarily non-Communist, and ready to fight within herself all kinds of Russian-inspired propaganda and action. Needless to say, this will take lots of tact and skilled diplomacy on the part of the US, and one can't help wondering whether US diplomacy is up to the job.

Let us review Who was Who in the recent Italian election setup, for defeated candidates must still be reckoned with. The Vatican, and its host the Pope, took a strictly anti-communist position. This was important, because the Italian people are strongly Catholic and susceptible to the influence and pressure of the Church. The Pope declared that Marxian theories endangered our civilization and that anyone who upheld them was *ipso facto* excommunicated from the Church. The Pope further declared that abstain-

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ing from voting was a "major fault, a grave sin (he did not say "mortal sin" however). The implications of his statments are quite clear.

After this supera-terrestrial definition of policy came Premier de Gasperi, who is a strong believer in Christianity. He is strongly against Communism and said shortly before the elections that the sabotage of the Marshall Plan by the Communists showed their tendency to destroy the "legitimate liberties of the Italian people." de Gasperi's opponent in the elections was Palmiro Togliatti, Communist leader, who denounced the Marshall Plan as a means for the US to enslave his country economically, to further "American Imperialism," and to buy the liberties of his people. His assumption was, of course, that liberty was rampant in all the countries east of the Iron Curtain.

Another man of importance on the Italian scene is Peitro Nenni, leader of the majority socialist party. Whereas Togliatti is angered by the Anglo-French-American decision to give back Trieste to Italy without consulting the Slav bloc, Nenni would like a new "Eastern Locarno," wherein all countries involved might compromise on the Trieste issue. The danger represented by Signor Nenni was that for fear of a "clerical victory" he might have joined with the Communists, not realizing the danger his party would have faced later on. History in the past few months has shown that when Socialist parties are forced to play the game of the Communists they soon are absorbed into the latter camp.

The other side of the play will be acted out in the United States. The November elections there will be even more important than were the Italian elections, for their outcome may mean greater instability in an already unstable world. One may well remember that in 1940 the Germans made active propaganda against the reelection of President Roosevelt.

This time, the opinion in the States as well as in Europe is that the Truman Administration has been a failure and that President Truman has very little chance of being re-elected. However, this year the issue is not Roosevelt against Dewey; it is a three-cornered fight between the Democrats, the Republicans and the third party led by Wallace. Wallace's policy is clear—he wants cooperation with Russia as the only path to world cooperation and world peace. He is an idealist who seems very little concerned with tough realities, but his line may win over a great many people who are afraid of another war and who feel that cooperation with Russia is the lesser of dangers. It may happen that the Republicans and Democrats will join hands over the Eisenhower candidacy in order to beat Wallace if he appears to be getting too strong, thus reducing the three corners of the fight to two. Otherwise, nobody seems to be able to think of a Democratic candidate with a chance of winning, not even the Democrats themselves. On the other hand, while Republican candidates seem to be almost too numerous, no one of them appears to be *the* man to cope adequately with a dangerously muddled international situation.

It would be claiming too much to say that the future of the world hangs on the coming US elections. Theories and guesses as to what will happen are numerous. The obvious danger lies in the fact that no one knows what Russian reactions would be to a definitely anti-Russian policy in the US which was backed by strong economic and political intervention in Western Europe. Conversely, no one can be sure that a lenient, cooperative policy would soften the USSR in any appreciable way without throwing all of Europe and Asia into her lap.

It is felt here—in France, in England, in Italy and elsewhere west of the Iron Curtain—that we are unimportant as nationalistic entities. We are the stakes of a dangerous game. We may rise to importance and wealth once again, or we may be again involved in a totally destructive war without having been able to do anything at all to prevent it. Strategists speak coldly of a European battlefield whereon Americans and Russians would fight, but we understand too well that this would mean, for us, complete destruction, misery and the blotting out of all those human values which are our *raisons de vivre*.

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CONTRIBUTIONS OF CHINESE IN CUBA

KING-CHAU MUI

(Chinese Minister to Cuba)

OF the foreign elements in Cuba today, the Chinese play an important role. They have entered into various recreational, beneficial and cultural societies which serve as ties drawing them together and giving them mutual aid and protection.

They use the press and the radio, two powerful vehicles of culture, as means of keeping themselves informed of the latest political, social, and economic developments. They sponsor several radio hours weekly for the purpose of broadcasting Chinese music and news. Their three leading newspapers are: *Wah Man Sion Po Daily*, an independent commercial newspaper; *Man Sen Yat Po Daily*, the official organ of the Chinese Nationalist Party (Kuomintang) and *Hoi Men Kong Po Daily*, official organ of the Chinese Democratic Party (Man Chi Tang). They have a magazine, *Fraternidad*, the mouthpiece of the association of Chinese grocery merchants, edited in both Spanish and Chinese.

As far as home life is concerned, many Chinese seem to make the best of the circumstances by forming new ties here. A number of the Cuban women have married Chinese citizens, because they work hard to make home life happy and harmonious and contribute to the well-being of their Cuban relatives. Divorces on the grounds of incompatability, desertion, non-support, or infidelity are very uncommon among the Cuban-Chinese families.

Their children are not only educated in Cuban schools, but often receive primary education in Chinese schools in order to acquire a knowledge of the language and culture of the country whence their fathers came. Under the direction of Chinese and Cuban teachers, the Chung Wah School was started 11 years ago to educate the young Cuban-Chinese in dual traditions.

For cultural development the Chinese colony turns to certain organizations for instruction and enjoyment, such as dramatic clubs, athletic clubs and Chinese music associations. People belonging to different professions and walks of life organize societies, such as chambers of commerce and grocery, fruit, laundry, restaurant, agricultural and united Chinese associations. Those belonging to certain surnames or clans band together. A Chinese hospital, Kow Kong, was built many years ago for Chinese and their families. It does a great deal of charity work for those who cannot afford to pay for hospitalization. Likewise, an old men's home is provided for the aged who have no relatives to care for them.

It is a coincidence that October 10th is a national holiday for both the Chinese and the Cubans: for the Chinese because it was the day of the successful uprising in 1911 against the Manchu regime; for the Cubans because it was the day in 1868 when Carlos Manuel de Gospedes made his cry for liberty or death and the struggle for liberation began.

Having been victims of oppression themselves, the Chinese were sympathetic towards the cause of freedom and conspicuously participated in the Cuban struggle for independence. When on the memorable day of October 10, 1868, the voice of the noted Cuban patriot called people to arms, the names of many notable Chinese fighters—Juan Diaz, Francisco Moreno, Juan Anelay, Crispin Rico, Pablo Jumenez, Siam, Jose Tolon, Tancredo, Bartolo Fernandez—became well-known. (It was the fashion for Chinese to bear Castilian names, although some did keep their original surnames.)

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In *Historical Notes of the Chinese in Cuba*, Captain Bartolo Fernandez made the following statements to the author, Antonio Chuffat:

"I was at the battle of Las Guasimas, Guaimaro, Cascorro, and others. We were about 500 Chinese. Among my comrades who were with Generalissimo Maximo Gomez was the brave Chinese, Juan Sanchez, who had by his valor obtained the rank of captain. He had a bright mind and had been a soldier in China at the time of the insurrection of Hong Sau Chong and knew how to fight....

"General Napolean Arango had 400 Chinese soldiers under him; Maximo Ramos 170; and General Calixto Gracia 200. In Oriente General Modesto Diaz had as aid Captain Liborio Wong, who was a Chinese herb doctor, well-acquainted with Cuban plants. He became a hero, having fought at Cauto, Embarcadero, Mina de Tuna, Guaimaro....

"Captain Francisco Moreno, who had struggled against the Manchu regime in China and had come to Cuba while young, fought in Mayajugura. He managed to get into the sugar mills to induce his countrymen to join the Cuban cause. Major Antonio Moreno died on the battlefield fighting...."

Dr. Ramon Grau San Martin, formerly professor of the University of Havana, now President of the Republic of Cuba, said of the Chinese on one occasion:

"We have learned to admire, understand, and interpret the Chinese who is such a good friend of our country, with regards to the virtue of his race. His capacity as a worker is well known, as was also his stoicism under suffering, and his firm resolution to strive against adversity.... We find him wonderfully equipped for work, full of enthusiasm for any activity which makes for success in life's struggles; he is the man who is never afraid; who conforms to all circumstances; who strives under all kinds of adversities, and who at the same time has the intense desire to better his condition, to study, and to acquire knowledge...."

During the Sino-Japanese War, the Cuban Government was extremely sympathetic toward the Chinese. In 1941, the Cuban President ordered that October 9th be designated China Relief Day. Top-ranking Cuban Government officials broadcasted over 16 radio stations on behalf of China's cause As a result, more than 40,000 people joined in the Bowl-of-Rice activities, from which US$30,000 was raised to aid Chinese refugees.

When eight Chinese vessels called on Havana in 1946, they were most hospitably welcomed by the Cuban Government and people. Generalissimo Chiang Kai-shek and a number of high Chinese Government officials have received the highest Cuban decorations.

On November 12, 1942, the Treaty of Amity was signed between Cuba and China. This agreement promised closer cooperation and friendship between the two nations. Article V of the Treaty stated:

"The nationals of each of the High Contracting Parties shall be at liberty to enter or leave the territory of the other under the same conditions as the nationals of the other countries."

It is ardently hoped that the Cuban Government will enact, in the very near future, the necessary legislation to carry into effect the stipulations of Article V. In this way, the relationship between the Cubans and the Chinese will be more friendly and cordial than it has ever been in the past.

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China's Agriculture: The Basic Problem

D. Y. Lahne

(The following article is a condensation of a series of lectures which the writer delivered at a Chinese college during the later war years. Fundamentally, there has been almost no change in the conditions discussed, and few modifications were necessary.)

NOW that the reactionaries are brandishing the big stick everywhere in the world, a cheap explanation for the continued successes of the Chinese Communists has become generally accepted. These successes, we are told, are entirely due to secret Russian assistance. That theory, no doubt, is idiotic; to understand its motivation we must remember that the reactionary, when true to type, is an escapist and a coward. He does not want to face the facts. He hides behind some convenient smoke screen ("all the evils of our country are due to the Jews—the Communists—the Yanquis") and goes on dozing in his feeble opium dreams instead of trying to change the world and make it a better place to live in.

The truth is that the successes of the Communists are in a large measure due to the fact that the people support the Communists; and that support is given in return for something which the Communists do for the people. What they do is not the subject of this article; it falls short of what should be done; and there is not the slightest reason why the necessary action should be a monopoly of the Communist Party. In fact, it could be performed more easily and more quickly by a determined and efficient liberal Chinese Government supported by the United States. The unfortunate thing is that American policy at this moment is neither liberal nor inclined to face facts. It is befuddled, hysterical, panicky, and violent; and as long as it remains so, it is likely to lose the war in China.

Dr. Buck's Study

The facts are expounded and documented very fully in the most important book written by a foreigner on modern China: John Lossing Buck's "Land Utilization in China." Professor Buck is mainly an analyst of realities; although he is neither a profound nor a courageous theoretical thinker, he presents his facts honestly enough and leaves it to his readers to work out their own solution on the broad and solid basis provided by his invaluable collection of statistics.

Even the densest blockheads, inside the Kuomintang and out of it, have long realized that there is something radically wrong with China's rural economy. Since their minds are focussed on the Confucian classics or the Bible, as the case may be, they have no time to read books. However, a spark of light did penetrate to the nether darkness of these minds, enough to enable them to invent the hackneyed slogan of "Rural Reconstruction:" but no more; Wang Ching-wei in his heyday as the favorite of a generalissimo headed a "Rural Reconstruction Commission" where all the peanut-sized economic brains of the country met to deliberate on matters far beyond the comprehension of Confucian scholars. I must also remind my readers of the Mass Education Movement (Ting hsien), of the New Life Movement's rural program in Kiangse, of the Farmers' cooperative projects so fashionable just before the war, and of a large number of missionary rural development schemes. To understand why the need for rural reconstruction was so generally and urgently felt, and why the solutions attempted turned out to be failures even before they were put to a practical test, we must undertake a brief survey of the historical development of rural economy in China and elsewhere, largely under the guidance of Dr. Buck.

Although some of the highly industrialized countries of the West have much greater population densities than China, China was by far the most densely populated country in the world before that industrialization had occurred; and, if only rural areas are considered, she still supports a larger number of people per acre of cultivated land than any other country. This has been made possible by the early development of a very intensive cultivation of the soil and the selective elimination, natural or conscious, of all forms of agriculture not yielding maximum returns in terms of calories per acre. Buck calculates that dairy farming in the USA yields milk equivalent to 675,000 calories per acre per year and the raising of poultry 210,000 calories per acre per year. On the other hand, the planting of grains, or grains and tubers, produces approximately 4,000,000 calories per year, that is to say, six to twenty times as much. In a way, one might say that China solved in a quite scientific way the problem of supporting the largest possible rural population on the smallest area possible; but for that achievement a price—in fact, a double price—had to be paid.

It consisted, first, in the sacrifice of the quality of the food produced to the quantity; for the sake of turning out more calories, low value foods (starch) were at a premium and the growing of expensive foods (meat, dairy products, eggs, fruit, leafy vegetables) was discouraged. Animal protein was replaced by vegetable protein (beans), the diet became vegetarian and deficient in lime, phosphorus, iron and some of the vitamins.

Waste Of Labor

Secondly, land productivity was strained to the utmost at the expense of labor productivity, in other words, an excessive amount of labor was invested in wresting the highest possible return from the land, giving Chinese agriculture the character of what Americans call truck gardening. In China, the average farmer produces 1400 kilograms of grains or other foodstuff equivalents of grain, while the average American farmer, chiefly through the use of machines and the greater productivity of large farms, produces 20,000 kilograms of grain: 14 times as much. This explains "why the one-quarter of the total population who are on farms in the United States can provide more agricultural products per capita than three-quarters of the total population in China." Buck also points out that *"this low production in China per man-equivalent is the real reason for the low standard of living as compared with the United States."*

Of the other factors reducing labor productivity in China, I shall point out only the most important ones. One of them is the fragmentation of land which, partly through the agency of inheritance customs, not only reduces the average farm size century by century, but splits up each farm into numerous separate scattered parcels. Thus it becomes difficult and expensive to work the land efficiently with labor animals, not to speak of machines and mechanical contrivances such as metal ploughs, harrows, and so on. Large farms in China, though by no means large according to American standards, are about three times as productive as the small ones; and this in spite of the fact that they use no machinery and that much of their land also consists of scattered parcels. Buck estimates that, by increasing the size of farms and eliminating fragmentation, an additional 23 million acres (10 percent of the total) could be made available for cultivation; moreover, he believes that a modernization of production techniques might bring about a 25 percent increase in total agricultural production.

Another factor making for agricultural inefficiency is the existence of tenant farming on a large scale. It is exactly on the most productive and richest rice-growing soils of the country that tenancy is most prevalent (1/3 to 1/2 of all farm land

in Kiangsu, Anhwei, Hupeh, Szechuen, Hunan, Kiangsi, Chekiang, Fukien, Kwangtung). By means of the high rent which it is customary to exact, the landlord holds the tenant in a degree of economic subjection which falls just short of slavery; and since the farmer thus maintains himself barely above the subsistence level in normal times, the landlord, in years of crop failure, can deprive him of what savings he may have accumulated and invested in land, tools, or animals during better years.

Summarizing these basic facts, it is possible to arrive at conclusions which indicate a future program of reform.

First of all, it seems to me that it cannot be disputed that farming on small parcels of land is uneconomical, that it prevents the use of machinery even of the simplest kind, and that therefore an inordinate amount of manual labor has to be employed in order to make the fullest use of the land. From this, it follows that agricultural produce is largely eaten by the producers themselves because, although there is much of it per acre, there is little per capita. Therefore, China cannot at present support a large industrial population without suffering a food shortage—it is only necessary to recall in this connection the fact that the few industrial cities we have (Canton, Shanghai, Tientsin) were large importers of staple foods (rice, wheat) from abroad before the war. In other words, China will have to continue on a low standard of living as long as she does not embark on a program of increasing rural labor efficiency instead of increasing—as in the past—yield per acre.

Average Income Low

The average income in China before the war used to be 30 silver dollars per capita per year as against, I believe, about 1200 silver dollars in the USA (National income around 1935: US$75,000,000,000 per year for a population of 140,000,000, or US$540.00 per capita per year or, at an exchange rate of $3.50, Chinese Standard Silver $1,900.000. Considering the relatively low purchasing value of the American dollar in the USA, this corresponded roughly to Ch. S.S.$1,200.) Twelve hundred dollars is not a big income, but it makes all the difference between poverty and wealth according to the pitifully inadequate standards of our day. That difference is entirely due to the higher efficiency of labor in an industrialized country; for the real wealth of a nation is its labor potential, and its ability to make the fullest use of it. Obviously, wealth is consumption, and we cannot consume anything that we have not previously produced. Our chief means of increasing wealth (or labor productivity) is, of course, the use of machines; but the industrial laborer who produces clothing, shelter, production, tools, and luxuries must be fed by the agricultural laborer who produces food only—and therefore the agricultural laborer, unless he produces more food than he can eat, is unable to support the industry which he needs to raise his own level of income beyond mere food requirements. We in China are therefore confronted by a double problem: first to build up an industry capable of supplying the goods the consumption of which is considered wealth; and, secondly, to develop an agricultural system able to feed that industry.

I should now like to direct your attention to a cardinal point: and that is the circumstance that these two problems are inextricably linked. The farmer cannot raise his income without developing an industry; and industry cannot develop without the farmer increasing his per capita output by the help of mechanical tools furnished by industry. But the pivotal point on which the problem turns is the fact that farmers cannot buy mechanical tools unless a system of agriculture is evolved which creates farms of such a size that they can afford to purchase and operate these expensive tools. In a country where a single harvester combine costs as much as 10 average farms, there is no room for agricultural progress, and the thing that China therefore needs today is quite simply an agrarian revolution.

I have used the word 'revolution' advisedly, and I shall now try to explain why a revolution is required and not merely a gradual reform.

The Central Government has been well aware of the fact that something was wrong with China's agriculture. But the three props of that Government: the military, the mer-

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chants and bankers, and the landed gentry, as a class, all rest on the same foundation which naturally enough they are unwilling to see undermined; and that is the present system of land tenure in China. Ultimately, the economic power of these classes can be traced to the dominance they hold over the farmer.

The Government, I said, has long felt the need for reform but was unwilling to saw off the branch on which it was sitting, was unable to cut itself loose from what little assistance it had, not from the people who never supported it, but from the ruling classes who maintained it in their own interest. The Government therefore resorted to a policy of throwing dust into the eyes of the people, into their own, and into the eyes of outside observers. It called in experts on rural cooperatives from the League of Nations; it made eyes to half-hearted, compromising missionaries; it appointed committees on rural reconstruction headed by Mr. Wang Ching-wei and similarly ignorant hydrocephali; it invented that hare-brained New Life Movement scheme; it installed so-called Model Hsien where honest technicians were made to languish in the deadly boredom of Government-subsidized and quite perfectly furnished brothels; for none of the smart tricks that were performed in a model hsien could be duplicated anywhere else and none could be afforded by ordinary people not subsidized by a government that knew nothing about financing except on a "model" scale.

Speed Essential

The present Government is constitutionally unable to bring about the revolution we have in mind since it has been expressly created for the purpose of preventing it; and the essence of that revolution lies in just one thing: speed.

The present Government advocates 'reform' as against revolution. In other words, it believes that a slow transition, a gradual evolution can achieve the same desirable result of transforming China into a modern industrial country as a revolution would do. Why that happy pipe dream is convenient but unworkable I hope presently to show.

I have pointed out that to raise the Chinese standard of living two things are required: the setting up of large-scale industry and a *simultaneous* increase in agricultural labor efficiency sufficient to feed the new industrial population. Now, if the Government, as it apparently plans to do, leaves the development of industry entirely to private enterprise, or promotes it on its own modest scale under its own administration, all that will happen is a gradual increase in industrial population and industrial output; but there will be nobody to feed the increased population and nobody to buy its production, since farmers will remain inefficient and poor and will have no function in the scheme except to furnish from among their excess progeny the necessary industrial proletariat.

But a real revolution would proceed differently; it would remove from the land and set to work as industrial laborers at one stroke up to one-half of the farmers; it would thus make available workers for a tremendous industry and *at the same time* would increase agricultural efficiency by the amalgamation of individual farms and the introduction of agricultural machines to such an extent that the new industrial population could be fed; and it would have to do all this in less than one generation, for if more time were taken about it, the need for workers in the cities would merely drain labor from the land, thus encouraging higher breeding rates to replace emigrants from the farms. This would raise the total population of the country but not its wealth; and the course thereby forced on China would be that of Japan, Italy, or Germany—an excessive population, growing continually, capable of great industrial production but unable to sell it at home owing to the poverty of the country and to its lack of internal markets; therefore compulsion to seek markets abroad, imperialist expansion schemes, and wars. Obviously, the wiser thing to do is to follow the example of Russia or the US: to create a demand at home by raising the general standard of living through the simultaneous creation of consumption industries and farms of a size to yield maximum labor returns.

In America, people were able to set up and operate big farms on a capitalist and individualistic basis because, ever since colonization began, large tracts of land were available for settlement by relatively few peo-

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ple. In the old and densely settled parts of the world, large farms can be created only by amalgamation of the present small homesteads into either state or cooperative farms. Until this has been achieved, there will be, for the majority of the people of China, none of the benefits that can be had only collectively—no education, no adequate medical assistance, no electric power, no sanitary water supply and sewage, no planned distribution of goods, nor even a fair system of collecting taxes or recruiting men for military service.

On the other hand, provided we increase the farm size, we need not wait for all these good things until our average income in this country is 10 or 100 times what it is now. Outside the Yangtse Valley for example, water supply problems are not desperately difficult. In northern China, deep wells with pumps operated by windmills could be installed for sufficiently large rural communities. Most of western and southern China is hilly, and piped supplies can be laid in many places even without purification plants, provided that human manure is treated before application to the fields. The work of Winfield at Cheeloo University (compositing) and of various Japanese workers in Manchuria (storage in tanks) points the way to a cheap and effective treatment of human excreta for the elimination of intestinal diseases; but their methods, for various reasons, are not capable of being applied by individual farmers, while cooperative or collective farms could introduce them with ease and at little expense.

It goes without saying that schools, courts of law, hospitals, district health offices and similar institutions, which under present conditions cannot be established for any important percentage of the rural population due to lack of funds, stand a better chance of coming to life in cooperative or state farms having a population as large as a dozen villages of nowadays.

Red Leadership Unnecessary

Such a program of reform requires no Communist leadership for implementation. Why is it that in trying to solve what is the major problem of Asia, all the common sense, in America as well as in China, seems to be on the Communist side of the fence? In practice, America's present policy is to force the Chinese people to choose a handful of dollars for temporary and altogether ineffective relief in preference to long-range intelligent self-help. She promises us some piddling alms which will never reach the mass of the Chinese people but will go to line the pockets of our small upper crust and help it to remain "upper" at the expense of the farmer. On the other hand, the Communists hold out the promise of a permanent cure for our basic evil and have begun a course of treatment which the farmers (not necessarily the present writer) believe to be the first step in redeeming that promise. America has nothing nearly as attractive to offer, a sad fact which is entirely of America's own choosing.

Council For The Promotion Of International Trade

RECENT establishment in Shanghai of the Council for the Promotion of International Trade has given many Chinese and foreign businessmen here hope of an effective channel for ironing out the many trade problems which harry importers and exporters in the turbulent China of today.

Formal Organization

The Council, which was formally organized March 22, includes representatives of 19 Chinese, American and British firms of substantial scope, good reputation in the community and extensive experience in international trade. It is largely an outgrowth of dissatisfaction with existing organizations promoting the interests of importers and exporters.

The Council will act as a gadfly in proposing to the various Governmental agencies concerned with foreign trade, measures for the protection and promotion of legitimate trade interests. Another objective is the establishment of cordial relations with similar trade groups throughout the world for the exchange of ideas and information and for mutual assistance on trade problems.

Already the new Council has jumped into the arena with criticism of present conditions of Government control over imports. It has submitted recommendations to the Export-Import Board for relaxation of recent restrictions which the Council considers prejudicial to legitimate importers and a deterrent to international trade. The Council also has petitioned the Board for measures to stimulate export of agricultural produce. These suggestions have received wide publicity in the Chinese press.

Council Officers

Council officers include: chairman, O.K.Y. Sun of the Hwa Dah Development Co. Inc.; vice-chairmen, Edward Dunn of the Way Yue Co. and James Y. Tong of the China Tea Co., Ltd.; honorary secretaries, M. P. Shen of the Simex Trading Corp. Ltd. and E. E. Day of William Hunt & Co., and acting honorary treasurer, Lee Tong of Lee Tong & Co.

Standing Committee

Other members of the Council's standing committee are W. S Ding of Ding Lloyd & Company, T. Y. Ju, Hudsun & Company; C. P. Ling, China Commercial Advertising Agency; J. A. Picciotto, John Manners & Company; Y. Z. Shen, Dah Yeh Trading Company; L. S. Skoblin, R.C.A. Victor Company China; T. J. Tu, Jin San Industrial Trading Company; T.T. Yuan, China Textile Engineering Corp. and S. J. Zenn, Investment & Trading Company.

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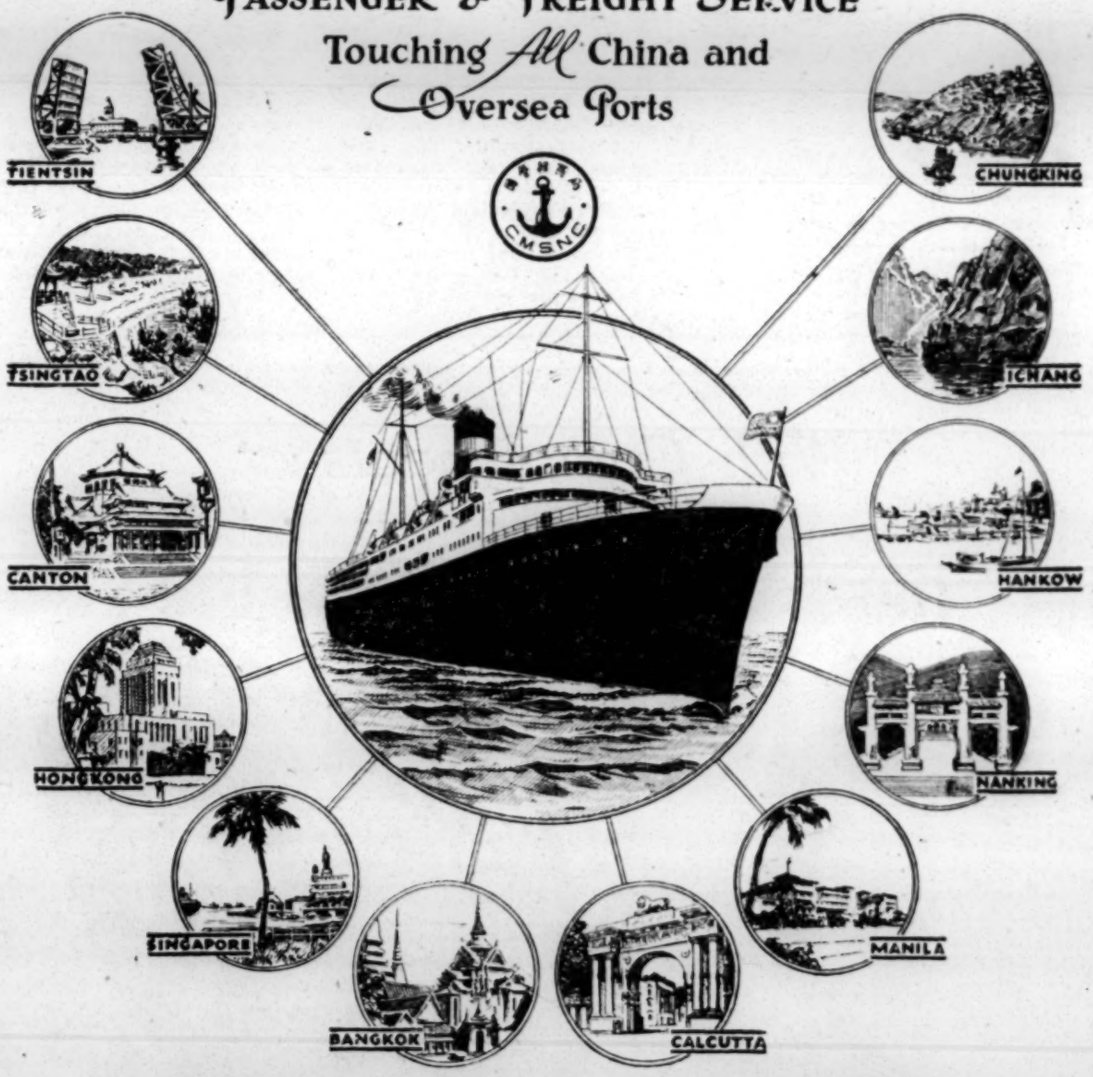

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CRM'S NEW METHODS BEAR FRUIT

Jack James

Canton.

WHEN the United States Government's China Relief Mission took over the job of administering US aid to China, it was the residuary legates of a number of ills left over from the old days of UNRRA and CNRRA. UNRRA and CNRRA did not leave very good reputations, chiefly because large amounts of the money and supplies involved failed to reach the people for whom they were intended.

If the Kwangtung Dyke Project, which is now nearing completion, is any yardstick, these ills bid fair to be corrected. The first big CRM-sponsored undertaking, after the institution of the rice rationing program, was approved last month only after long discussion between CRM officials and Chinese officials at both the regional and national level. Whether or not this policy can be carried over into other projects, its first month's trial has proved that relief money can be gotten to its intended use with a minimum of temptation and graft.

Three Conditions

Approval of the project by CRM was given only after the Provincial Dyke commission had agreed to three conditions. First, that a CRM-employed inspector be stationed at the site of each dyke. Second, that payments be made at regular intervals during construction, and then only if the reports of the inspector indicated that the work was satisfactry and that it was being done at a speed which would insure the completion of the work before the arrival of the spring floods. The third condition stipulated that money be remitted directly to the chairman of the local dyke commission and not to any intermediate agencies.

The project, as approved, called for repair and strengthening of 20-odd dykes in the most frequently flooded areas of Kwangtung. Dykes upon which repairs could not be completed were not approved and the original target date of May 1 was set for completion of the project.

The inspectors on the sites are under instructions to send daily reports to the regional CRM office in Canton. The reports include, in addition to information on construction progress, the number of workers reporting on that day, the quality of construction, problems encountered and unforeseen engineering difficulties, the weather and the local price of rice.

If for any reason CRM officials in the regional office are dissatisfied with the progress of a project, or with the kind of work being done, payments to the individual dyke are held up while an investigation is made.

This has been done in several cases. Difficulty in recruiting enough laborers to complete one dyke in the allotted time caused payments to be cut off until a sufficient number of workers was shunted from a nearby completed site. In two other cases, payments were held up pending a satisfactory explanation of engineer's reports of a much greater-than-average amount of work done per worker.

Dyke site inspectors, at a conference in Canton on April 20, indicated that at least half of the dykes would be completed by May 1. Three dykes had finished the necessary earth work and other inspectors were confident that their charges could be completed early in May.

This program of conditional remittances was not instituted without resolving a number of difficulties and there is, inevitably, a great amount of red tape.

Much of the red tape revolves around the transmission of remittances to individual dykes. CRM's Canton office authorizes periodic payments to the local dyke committee chairman on the strength of each inspector's reports. Payments are then made by the Central Bank and the Kwantgung Provincial Bank through CRM accounts in eight branches of the Provincial Bank in cities near the construction sites.

Early in April, while the value of national currency was steadily decreasing, payments were sometimes delayed a week or more after authorization. Even after arrangements were made to speed up payments, it was found necessary to establish payroll reserve funds for some of the more remote dyke committees.

Labor Problems

Labor problems have also been encountered in several instances. When funds were delayed and workers went unpaid, they often failed to report for work the following day. During the remittance difficulties, the progress of work slowed considerably.

Spring rains, which make possible rice planting and soil preparation, are invariably followed by a decrease in the number of laborers coming to work, inspectors report. Statistics in the Canton office show a consistent slump in work completed on the day after a rain.

Adjustments have had to be made in workers' pay, which is based on the price of rice. Payments were raised more than 50 percent during the last two weeks of April and new raises may be authorized if rice prices continue to advance. The South China office has recently petitioned the central office in Shanghai for additional funds because of the decreasing value of national currency.

Good Name

CRM is losing no opportunity to make a good name for itself with this project. News stories are released to local vernacular papers when payments are made at the end of every five-day period. These releases give the amount of money sent to each dyke committee chairman and the name of the chairman. A general progress report on the project as a whole is also included in each news release.

The reports are also sent to the inspectors at each dyke site, which sometimes receives no newspaper, with instructions that they be posted where the local citizens may read them.

Over and over, the reports emphasize that, contrary to published rumors, the money for the dyke project is not a loan. All money for dyke construction comes from the sale of rationed rice contributed by the United States.

This policy is paying dividends in worker morale and in the attitude of residents in the areas receiving aid. Inspectors report that the farmers benefiting realize that the dykes are lifesaving crop insurance for them and have shown their gratitude in a number of ways.

"They have had so many promises before," one westerner employed as an inspector said. "This promise is showing results."

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A VIEW ON BANK AMALGAMATION

K. S. Tehans (郭 坦)

CHINA is on the verge of bankruptcy. Fortunately the timely US$463,000,000 American loan has come to her aid. In order to avert eventual economic collapse, nothing is more urgent and more useful in the field of finance than currency reform, as runaway inflation accompanied by accelerated velocity of circulation has thrown the complex price machinery out of gear.

Bank Nationalization

Prior to a solution of this pressing problem, which is now under consideration by the Central Government and which has been listed in the Treasury's working program for the current year, some distinguished professors in a joint proclamation to the public advocated nationalization of the banks, with closure of all private banks (new and old style). By such means they hope to curb speculation which has become rampant throughout the country.

It seems to us this proposal for reform is drastic. A careful study will disclose that though the system has been successfully carried out in the socialistic regime of Soviet Russia, its implementation in China, where the democratic form of government is more suitable to the living conditions of the people, is questionable. Instead a more moderate measure should be taken to meet the situation—this is to improve the banking system by means of some form of amalgamation.

Except for the state banks and the private banks of well-known financial standing, such as the Shanghai Commercial and Savings Bank and the National Commercial Bank, our banks operate for the most part on a small scale. Owing to the eight years' war against aggression and the two years' internal strife, the authorized capital of our banks as a whole has depreciated greatly in terms of the purchasing power of the prewar level. According to the Finance Book 1947 we then had 1,482 banks in all, with an aggregate capital of CNC$655,301,622,000.

How can we expect active participation on the part of these banks of small resources in encouraging production in line with the Government's herculean task of postwar reconstruction and rehabilitation? Moreover, keen competition has led to the extension of credit beyond the limit of absorption by ordinary business. No sooner have rules and regulations governing a sphere of activity been announced from time to time, than the banks have discovered loopholes to circumvent the lawmakers.

We can see various advantages in a program advocating amalgamation of the banks:

(1) **Convenient for governmental control.** Since a bank is in constant touch with business, making loans to its clients in the form of promissory notes or bills of exchange in exchange for their evidence of property, and receiving deposits subject to check, an effective control over banks would undoubtedly have profound effects on the entire business public. But it would be easier for the monetary authorities to control a few giant organizations than numerous small independent ones.

(2) **Extension of the system of branch banks.** The glaring defects of our banking system lie in the fact that the banking business is concentrated in coastal cities while scant attention is paid to remote and backward regions. Strictly speaking, our banks have failed to discharge faithfully the duties devolved on them in financing every line of trade in all parts of the country. Under the modern branch system, the consideration of profit and loss is by no means a major factor in creating a new branch.

(3) **Firm foundation.** The proposed system would place banks on a solid basis strong enough to meet in ordinary times deposit liabilities on demand, yet strong enough to resist in case of emergency a persistent and formidable drain on specie.

In Chinese banking history only a few instances of bank amalgamation or merger are on record. In 1933 negotiations were undertaken leading to the eventual amalgamation of the Ho Hong Bank with the Singapore Overseas Chinese Bank and the Chinese Commercial Bank.

During and after the war periods there were 11 banks reorganized because of amalgamation. Last year some legislators brought forward a motion for the affiliation of the Central Bank of China, Bank of China, Bank of Communications, Farmer's Bank of China, Central Trust of China and Postal Remittances & Savings Bank; but the motion was rejected on the ground of prematurity. When the plan will be realized, only time can tell.

Numbers Increased

After VJ Day our banks, instead of decreasing, sprang up in great numbers. As far as the commercial bank and the district bank are concerned, the former rose from 118 before the Sino-Japanese War to 190 in 1947, representing an increase of 62 percent, while the latter numbers 488 at present, an increase by 40 times, over the prewar level.

In the present stage of economic development we should not close our eyes to the current tendency among the family of nations in this respect. Below for reference are two instances cited from banking experiences in Great Britain and the United States before the second world war.

Amalgamation among banks is common in England; therefore the number of banks is very limited. In 1900 available statistics showed a total of 142, covering 104 incorporated banks and 19 private banks in England; 10 incorporated banks in Scotland; and 9 incorporated banks in Ireland. In 1924 the number was greatly reduced, leaving only 35 incorporated banks and four private banks in existence in the three areas. The year 1928 saw a still greater reduction to 28.

The greatest among the British banks today, the so-called "Big Five," namely the Midland Bank, Lloyds Bank, Barclay Bank, Westminster Bank and National Provincial Bank, all assumed their present forms by amalgamation or merger. They have established themselves on a foundation so safe and sound that their credit has never been questioned even in the most confused money market. They carry the bulk of Britain's banking business, with a deposit equal to 87 percent of the total absorbed by all banks in the entire nation and each with a network of branches numbering from 2,000 to 4,000 both at home and abroad.

Developments In US

In 1838 the United States adopted the free banking system, under which any person or association of persons could apply for permission to establish a bank. This was contrary to the earlier practice of granting bank charters by special act of the legislature, as in the cases of the First Bank of the United States and the Second Bank of the United States. This decentralization caused banks to multiply considerably. Based on the report of the Federal Reserve Board, the number of banks all over the US in 1928 totaled 26,420. It is natural that bank failures would be of frequent occurrence. Failures totaled 965 in 1926 and 662 in 1937. This afforded those in favor of centralization an excellent opportunity for consolidating banks. There occurred 108 cases of amalgamation among member banks in the Federal Reserve System and 59 cases among the nonmember banks in 1928 alone.

The Guaranty Trust Company was amalgamated with the National Bank of Commerce in 1929. The same year the National City Bank of New York and the Farmer's Loan and Trust Company were amalgamated on the same model. The former had assets of US$2,000,000,000 and the latter, US$2,200,000,000. The Chase National Bank, now the largest bank in the world, with total assets of US$2,800,000,000 was formed in like manner out of its amalgamation with the Equitable Trust Company in 1930.

The experiences of Great Britain and the United States in amalgamating banks show clearly the advantage gained from such a process.

TWICE MONTHLY COL INDICES NECESSITY

J. R. Kaim

ON May 1, cost-of-living indices for workers and office employes rose 20.7 percent and 27.1 percent respectively over the preceding month. While to newspaper readers abroad these figures may indicate a rapid increase in the tempo of our money inflation, the fact is that Chinese national currency has lost far more on free exchange markets abroad. Furthermore, it is no less a fact that C.O.L. indices, no matter how carefully compiled, can refer only to certain essential items. They indicate the increase in the cost of living of a man who is glad to obtain and is satisfied with what is absolutely needed to keep the body together. There remains little for the soul.

When the index was compiled, the price of good quality white rice was about CNC$3,800,000. Three days later it was CN$4,200,000; within a few days the price had gained more than 10 percent. But it took the rice market only a few days more to reach the CN$5,000,000 mark and on May 10 the price of white rice stood at $5,500,000 per picul with official foreign exchange rates still unchanged.

Under such conditions, one may well question the practical value of the present index scheme, for while the index is published on the last day of a month and, of course, is based on price developments realized during that month, it is a well-known fact that employes are paid at the end of one month in order to cover their expenses during the following one. In Shanghai when so essential a commodity as rice gains almost 45 percent within 10 days, many a salaried man may scratch his head to figure how to manage until the next index is published and the next salary received.

COL Index Ignored

And this is so even when and where employes are actually paid according to the index. In reality, some firms fail to increase the payments in accordance with the rise in the cost-of-living indices, or grant exactly half of what the index says. This they do by paying twice a month; namely, first by the middle of the current month, according to the previous month's index, second, at the end of the month, according to the new index.

Getting back to the question of keeping body and soul together, another fact may be of interest. Prices of many consumer goods have proved to increase not in accordance with "market movements" or "increasing overhead expenses" (caused, among other items, by the C.O.L. index), but simply in line with black market exchange rates. When one knows which are the goods calculated according to whispered rates, he may as well figure out whether the black market has or has not gone up.

Grinning merchants explain that when goods are what they prefer to call imported from the South, neither official exchange rates nor official indices are of any value and importance. Prices of such goods, they say, go up and down according to what *fapi* buys abroad.

However, such so-called imports from the South are not the only goods on which prices have advanced recently at least as much as the rice price. Among such commodities many are regarded as typical export goods, while others, though perhaps less typical, would offer good export chances (without the roundabout

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way via Hongkong) if exchange rates were more realistic.

Such goods are cheap when their prices are calculated at unofficial rates. They are expensive when calculated at official rates, and it is exactly the same with many local consumer goods including prepared local foodstuffs. Prices of such commodities which, it may be repeated, are nowhere taken into consideration when COL indices are compiled, have gone up since April 1 far more than indicated in the index. And so have other luxuries such as ricksha and pedicab fares.

All this the employe is supposed to pay from an income which, in the best case, has been increased according to previous month's price movements. This was not so bad so long as the speed of inflation was comparatively slow but it is no good when the buying power of one's income declines as rapidly as has occasionally been the case during recent weeks.

Indices Needed Oftener

The question is whether under such conditions it would not be better and more just to compile the index twice a month. By no means would that solve the problem. But it might help many thousands of people. It is a well-known fact that during the inflationary period after World War I, many countries and many cities published price indices every day. The new index was announced at noon and it was just a gamble whether one preferred to pay his meal in a restaurant before noon, at yesterday's index, or in the afternoon at the new one which might be higher or lower.

Thus, to establish and announce fortnightly indices would be nothing new in the history of economics. Thousands of shopkeepers are used to altering their prices almost every day and they certainly hurry to do so when new official exchange rates are announced (even when their goods are produced domestically). When prices advance by 10 percent or more within a few days, and when this happens during the first week of a month, the paid-on-the-index-basis employee may wait another three weeks until his income will reflect the upward movement of prices.

There will come the day when inflation will decline in tempo and finally will terminate. Then, all kinds of payments will easily be settled by normal means. But as long as inflation continues and as long as by issuing indices the Government indicates its will to regulate the incomes of salaried people, there is hardly any objective reason why the index should not be compiled more than only once a month. To say, as has occasionally been done, that cost-of-living indices force prices up, certainly is nonsense. First prices go up, then the index follows. That higher wages and salaries impress the calculation to a certain extent is a matter of course, but fundamentally wage increases, at least in a period of money inflation, are consequences not causes of higher prices.

The Week's Business

REVIEWING developments during the last week it is evident that matters have deteriorated both rapidly and drastically. While official foreign exchange rates remained unaltered, commodity prices went up and the price of white rice reached $5.5 million per picul.

That under such conditions commercial exports were almost impossible, apart from some shipments to and via Hongkong, is a matter of course. Even some semi-official news reports did not hesitate to acknowledge the "standstill in foreign trade."

Meanwhile, Mayor K. C. Wu, whose best intentions have always been acknowledged by this city's population, expressed the view that "Hongkong dollar exchange rates are to be blamed for all economic evils in Shanghai." This at least is what local newspapers had to report about the Mayor's statement, but the majority of Shanghai's businessmen failed to share the views of their active mayor. They said that the value of the national currency does not depend on the Hongkong market but that on the contrary quotations on the latter—and everywhere else—depend on the value of the national currency.

During the week under review, the Central Bank issued and commented on a new regulation outlined in its Circular No. 131. A spokesman of the Central Bank termed the purpose of the new ruling "obvious."

Importers, he said, "never sold these (arrived) goods at a price calculated in accordance with the cost paid in exchange quotations but at prices calculated far above black market rates.

"Recently blackmarket rates have taken a violent rise, far quicker than commodity prices. As prices of imported goods are calculated according to the blackmarket rate, a sudden rise in the prices of the imported goods is unavoidable.

"In order to prevent the situation from getting worse, the Governor of the Central Bank has given new instructions regarding the settlement of foreign exchange under import license.

"By this new measure, it is hoped that importers will no longer be permitted to enrich themselves by paying for imported goods at a low market exchange rate, but selling them at a much higher blackmarket rate. In other words, the Chinese financial authorities will not permit the existence of a wide gap between the price of imported goods and the cost of importation."

Businessmen figured out that the new ruling would not harm them provided they calculate in foreign exchange—but this is exactly what they are supposed not to do. It was, therefore, quite logical that the secretary-general of the Importers' & Exporters' Guild, Mr. Yau-chang Chang, made the following statement regarding the shortcomings of the new ruling:

"(1) It will be impossible under the new rules to foresee the costs of imports, a fact which will still give momentum to the present soaring prices;

(2) To avoid foreign exchange fluctuations, businessmen will be forced to resort to the blackmarket;

(3) The ever-widening gap between the official bank rate and the blackmarket rate will "coke" the export business and bring it finally to entire stagnation.

(4) The new rules are contradictory to the principle of elasticity as embodied by the Central Government in its new foreign exchange control policy, thus revealing lack of confidence on the part of the government in the rate fixed by itself and in the value of national currency."

Simultaneously, the Guild directed its members to suspend buying from and selling to the Central Bank foreign exchange—through appointed banks—until the rather complicated situation is clarified. Businessmen made it clear that the demand of the Central Bank that importers be required to pay the difference (in local currency) between foreign exchange rates prevailing the day of the issuance of the licence and the day of arrival of the cargo in question, does not correspond to any banking business usages throughout the world.

The dispute on what has to be done in order to improve the situation did not prevent commodity prices from increasing.

The money market became tighter on May 11 when the private interest rate went up from 24 percent per month to 25 percent.

Quotations

Stock	May 5 CNC$	May 12 CNC$
Wing On Textile	2,580	3,270
Mayar Silk	4,300	4,700
Commercial Press	720	940
Wing On Co.	695	780
Ewo Cotton	4,390,000	5,530,000
Bond C	184,000	282,000

Commodity	May 5 CNC$	May 12 CNC$
Wheat Flour	1,600,000	2,300,000
White Rice, first	4,750,000	5,500,000
Peanut Oil	11,500,000	—
Raw Silk "C"	445,000,000	550,000,000
Jap. Rayon	340,000,000	450,000,000
Cot. Yn. (42)	270,000,000	331,000,000
Cot. Yn. (20)	170,000,000	207,000,000
Caustic Soda	105,000,000	130,000,000
Koo Pan Soap	6,400,000	7,080,000

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NEWS OF THE WEEK

Minority Parties Lose Ground; Conservatives Expect Victory In Korea

INAUGURATION of the first constitutional president and vice-president of the Chinese Republic has been postponed, probably until May 20, according to press reports. The inauguration was originally fixed for May 5, but the dispute between the Kuomintang and the minority parties over the allocation of seats in the Legislative Yuan made the postponement necessary.

The dispute stemmed from the Kuomintang's promise to give a certain number of seats to the Young China Party and to the Democratic Socialists, but the results of the "elections" were bitterly disappointing to the minority parties. Out of the 155 nominees of the two parties only 22 were elected while 60 others became reserve members.

Government spokesman Dr. Hollington K. Tong stated that before the election of the 733 members of the Legislative Yuan the Kuomintang had "exchanged views with the Young China Party and the Democratic Socialists and expressed its willingness to aid the candidates of the two parties to secure election." Tong further stressed that a political solution of the dispute "would compromise the spirit of the law in question" and thereby ruled out the possibility of meeting the demands of the minority parties for seat allotment.

But the minority parties told a different story. According to them, long before the election of the National Assembly and of the Legislative Yuan, the Kuomintang had promised them a certain number of seats in these two organs as a quid pro quo for their participation in the "coalition" government. In a public statement announcing their boycott of the Legislative Yuan, the minority parties made the blunt charge that the election was a farce. They openly accused the Kuomintang of bad faith and of "rationing" the seats. It was alleged that some of the Kuomintang men who were recognized as being elected failed to poll more votes than the candidates of the minority parties.

In defiance of the stern warning from the minority parties the Government was determined to have its own way and present the minority parties with an accomplished fact. Over the protest by the Young China Party and the Democratic Socialists the Government made public the names of the new legislators and convened the Legislative Yuan on May 8. Mr. Hsu Fu-lin, state counsellor for the Democratic Socialist Party, denounced this unilateral action as being "typical of the manners of the Kuomintang during the period of political tutelage."

The minority parties threatened to walk out of the Nanking Administration unless the inter-party agreement is fulfilled. But according to well-informed political observers, they simply talk big and act small. Even if they should make up their minds to quit, it will not do the Government any harm. Today, after a year of poor showing, they are politically discredited and can be of little use. The *UP* quoted a foreign observer in Nanking as saying "the two minority parties are politically bankrupt anyway . . . The Kuomintang would like them in the government if for no other reason than that it creates a good impression abroad." This seems to be the reason why the Kuomintang thought it quite safe to give no heed to the appeal and protests of the minority parties.

In spite of considerable speculation on the forthcoming shake-up in the government structure, it is generally believed that General Chang Chun will retain his post as President of the Executive Yuan because "a thorough search of the field had failed to find a suitable successor." It is explained that earlier in the week, President Chiang Kai-shek was prepared to nominate General Ho Ying-chin but the latter's insistence on selecting a cabaret which would

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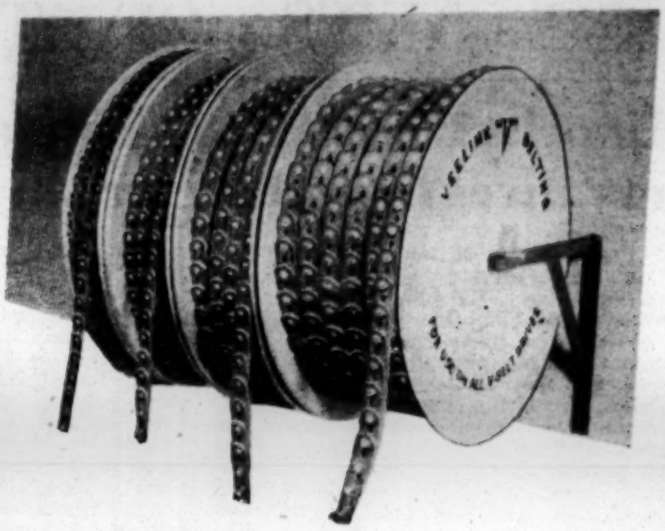

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be "workable and practical" apparently eliminated him from further consideration.

* * *

Korean Elections

SOUTH Korea held its general elections on May 10 to set up a National Assembly. It is generally considered a foregone conclusion that the right wing under the American-educated Syngman Rhee will win.

It is no secret that both Washington and Moscow are doing their best to strengthen their positions in Korea. But politically speaking the United States is several moves behind. For one thing, conditions in South Korea are anything but satisfactory, with the reactionaries firmly in the saddle. For another, the recent conference held at Pyongyang by the various Korean political parties has caused much political embarrassment to the United States.

Russian occupation army commander in North Korea, Lt. Gen. P. G. Korok-tov formally announced that Soviet Russia "has had necessary arrangements made for immediate withdrawal of its troops from Korea in order to make American troops withdraw from Korea simultaneously."

Needless to say, this was a very smart move. The American occupation boss, Lt. Gen. John R. Hodge, denounced the move as "an attempt to get the Americans out and let the Communists from the north take over all Korea."

Government officials in Washington said the fate of Korea is now in the hands of the United Nations and the United States must abide by whatever decision that body makes after the election. It is generally believed in American government circles that the new government to be formed in South Korea would request a treaty arrangement with the United States for American forces to stay and train a security army which the new regime will need.

* * *

New Army

THE conservative Syngman Rhee told *UP* that the first thing his government would do would be to organize a South Korean defense army. He further revealed that "once we have a recognized government we will ask Russia to get out of Korea and the United States to remain."

He was confident of victory in the election, because he claimed to "represent Korea" and "the only people who are against me are Communists, leftists and middle-of-the-roaders, and they don't count for much."

It is interesting to find out where Syngman Rhee stands on internal politics. "My domestic program will be based on land reform," he said. But he hastened to explain. "But I don't want to say this openly now because it might cause dissension among political groups. The wealthy class is getting nervous."

It is pointed out that the Korean constabulary, the black-uniformed Korean police, is the largest armed force in South Korea. Rough and tough, the police "are itching for an opportunity to crack some leftist heads."

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SHANGHAI—HONGKONG

What US Papers Say

THE election of Li Tsung-jen as China's first vice-president drew considerable favorable comment in the US press last week. Other topics of interest which were discussed included the May 10 elections in South Korea and US Secretary of State Marshall's recent statement opposing any basic revising of the UN charter.

* * *

China Elections

"VICE-PRESIDENTS in China, under the new Constitution, command more respect and exert more influence than vice-presidents in some other republics, especially when the office at Nanking is filled by a personality like General Li Tsung-jen," the *Cleveland* (Ohio) *Plain Dealer* declared in a recent editorial. "General Li's election by the National Assembly last week is a rare bright spot in news from the Orient that has told for months past only of military defeats for the National Government, continuation of corruption and domination of the KMT political machine . . . General Li knows what can be done by honest administration. He knows that China's only hope of winning against the Communists is to give it the best possible government."

The *Philadelphia Evening Bulletin* commented: "The election of General Li . . . is good news for that country's friends. For (he) represents the opponents of the reactionaries in the KMT (who) are the chief obstacle to a democratization of the Chinese governing system. They cooperated with the Chinese Communists in blocking the efforts of Secretary Marshall to bring new blood into the Chinese administrative system and create a real coalition of democratic parties . . . The men who backed Li may well have done a good day's work for Chiang. For Chiang stands to profit most of all from rebuff administered to the reactionaries."

Also representative of the general approval expressed by US editors was the *New York Times*' comment: "What China has lacked most politically over the last twenty years has been the existence of a 'loyal opposition' to the group around President Chiang Kai-shek who has ruled the KMT and the National Government. If the vote in the National Assembly that elected General Li as vice-president is taken at face value, then there is now a strong 'loyal opposition' and one which may be difficult to liquidate. Chinese political developments are not always what they seem, but this election in the National Assembly appears to have been a real revolt against an inner-circle decision. It is the first real break in the right front of the KMT's leaders."

The *Cincinnati* (Ohio) *Enquirer* in an editorial written before the election of General Li made this comment: "It begins to look as though history in China is repeating itself, or rather continuing as usual. Not so many years ago, Chiang Kai-shek, a provincial war lord with an intellectual following, railed at the corruption of the Central Government. The truth of the matter is that, politically speaking, China belongs to the Middle Ages. Her feudal families continue to fight one another for power just as they have done for centuries."

* * *

Korean Elections

THE *New York Times*, pointing to the significance of the Korean elections on May 10, said in part: "Under the watchful eye of the UN commission, a general election in the American zone of Korea will be held . . . It may decide the future of Korea and whether that unhappy nation is to be free and united or divided and enslaved. By every means in her power, short of open warfare, Russia is seeking to enslave it . . . Her intention is clearly revealed by the latest move of the puppet government she has established in the north. It has proclaimed a single state under Russian control with the national capital at Seoul, in the present American zone. This, in effect, is an invitation to civil war. . ."

"During the past year, Japan, as General MacArthur pointed out yesterday, has been making peaceful progress under a democratic constitution. But Korea, strangled by Russia's grip on the north, has remained helpless even to administer her own affairs. The coming election will be at least an open expression of the popular will. At most, despite fomented dissension, it could be a first step, toward peace and independence."

Pointing out that in Cheju Island "a population of more than a quarter of a million has been thrown into civil war by Communist bands," The *Washington Daily News* (Scripps-Howard) declared that "Stalin has now added guerilla warfare to his efforts to sabotage the Korean election under UN supervision on May 10. A phony legal basis for the absorption of Korea into the Soviet system has been laid by a conference in the Russian zone. This is to be the foundation for a 'Communist people's republic of all Korea.' General Hodge, the American commander, has exposed this Stalin trick in a warning statement to the Koreans. He asks: 'How many of you approve a constitution copied from that of the satellite states of Eastern Europe, and approved by a handful of self-appointed stooges who take all their orders from their foreign master?' . . ."

The *Louisville* (Kentucky) *Courier-Journal* joined the denunciation of Soviet tactics in Korea, saying: "As a matter of fact, the Russians managed to beat by ten days the election sponsored by the United Nations in southern Korea. The UN undertook an independent government. But the Russians refused even to admit the UN election commission to their zone. They have refused since to take part in the election. Instead, they have pulled this constitution out of the hat and presented it as drawn up and approved by a Korean 'People's committee.' (It) is plainly a fake, an effort to lure Koreans into a state of mind which would accept Soviet totalitarianism by mistaking it for freedom."

* * *

UN Revision Opposed

THE statement by Secretary of State Marshall to the House Foreign Affairs Committee opposing any move at this time for a basic revision of the United Nations charter was warmly supported by the US press.

The *New York Herald Tribune* said in part: "The problem is not one of form, but of substance; not one of the veto, but of Russia. Russia cannot be wiped off the earth by a change in the UN charter, nor can the threat of Communism be exorcised by a change in voting procedure in the Security Council . . . There are those who argue that a UN without Russia would allow a more efficient organization to check Russia. This is at least dubious, since right of individual and collective self defense is permitted by the present charter, and the process of perfecting regional pacts to meet any aggression from the East is well under way. But a UN organized on the model of these regional pacts would kill all hope for 'developing stabilized working relations between the Soviet Union and other members of the community of nations.' Such a development has been termed by Marshall a fundamental task of the UN and US policy."

The *Washington Post:* "To be sure, there must be improvement in the UN, and there must be a revamped defense establishment. Nobody knows this better than Marshall. He is constantly seeking improvement in the UN, at least as an organization, and he has long pleaded for enough at his back to put both steel in his diplomacy with Russia and confidence in the threatened Europeans . . . He has articulated with point . . . what this newspaper believes. War can be provoked by American impatience no less than by Russian subversion."

The *Indianapolis News:* "Excessive use of the veto has only reflected the suspicions of the great powers. Its abolition would not eliminate or even moderate these suspicions. The basic truth is that all the world's most powerful nations must learn to work together to insure peace, whether the joint effort be within the UN or outside."

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What Chinese Papers Say

THE arrest of Senator Taylor, the May 4th Movement and the new Legislative Yuan were some of the interesting topics that were editorially commented upon in the Chinese press last week.

* * *

Democracy In US

COMMENTING on the arrest of Senator Glen Taylor, running mate of Henry Wallace on a third party ticket, the *Ta Kung Pao* stressed that it is necessary to uphold and preach democracy both in name and in practice.

"In February last, President Truman offended the Democrats in the South by submitting a 10-point program to Congress for safeguarding human rights. The day before yesterday, Senator Robert Taft, another presidential aspirant, announced in the Negro section of Cleveland that the Republican party is going to submit an anti-lynch bill to the Senate this month. However at this time when there is not much clamor for safeguarding human rights in the United States, Senator Taylor was found guilty of 'practicing' racial equality. He was dragged away to a police car by four detectives. He was not only forced to post a bond of US$100, but also ordered to leave his finger-prints, as if he were a burglar.

"The law Senator Taylor violated —the segregation law—is contrary to the Christian doctrine, to the Atlantic Charter and to the United States' Declaration of Independence. The Negro problem is one of US internal politics. Therefore, it is none of other people's business. However, we cannot help offering a few remarks in view of the fact that the United States leads half of the world. If the United States only wants to 'dominate' the world, the atomic bomb and the dollar might be sufficient to achieve this purpose. However, the world cannot be 'dominated' like this for any length of time. If the United States wants to lead the world, it must have a kind of moral superiority in addition to military superiority. At the present time, the United States prides itself on its liberal traditions. It is in the United States that this tradition can be best demonstrated.

"The United States delegates at Lake Success are using such terms as 'democracy' and 'freedom' a good deal, as if they were the personification of truth and justice. But at the same time, the Ku Klux Klan in the capital of Georgia continues to exist as a legitimate organization. The Negroes, who make up approximately 10 percent of the American population enjoy no protection in matters of education, election and employment. More than that, they are personally insulted time and again. Sometimes, their very lives are in danger. How can such a democracy, whose outward appearance does not agree with its true nature, win the admiration of the world? What difference is there between the American segregation law and the Nazis' anti-Semitic policy?

"In his struggle with the police Senator Taylor was slightly injured. While we are interested in the forthcoming presidential elections in the United States, we are more concerned about the wishes of the American people.

"It is still too early to predict Henry Wallace's chances in the presidential contest. Taylor, Wallace's running mate, is not well known in China. However, an American who dares to use a door marked for Negroes must be a man of moral courage, who deserves our respect. In violating the segregation law, Senator Taylor was upholding mankind's law of equality."

* * *

May 4th

THE reason why the May 4th Movement had epoch-making significance is because it followed the current of the times and won the support of the people, the *Sin Wen Pao* wrote.

But today, Chinese liberals are in desperate straits, not knowing what to do, the paper continued. "Looking at the world situation as a whole, we will find that the world is divided into two extreme camps. So far as the existing situation in this country is concerned, the Chinese liberals are dissatisfied with what the Government has been doing.

"Some of the liberals have allowed themselves to be influenced by Communist propaganda, believing that by cooperating with the Communists they will be able to translate their ideals into deeds. The Communist coup in Czechoslovakia and the tragic death of Jan Masaryk ought to be an eye-opener to these people."

The paper argued that Chinese liberals should not think that they can keep neutral and stand above partisan struggles. "Though the situation in this country leaves much to be desired, yet the conditions both at home and abroad will not permit a fundamental change of the situation. Therefore the only course open to the liberals is to display their strength and to work for political reforms so that the Chinese nation may be headed toward the normal path of democracy and government by laws. If we want to preserve our freedom, we must first safeguard the freedom of our country."

Legislative Luan

THE *Chung Hua Shih Pao*, official organ of the Young China Party, expressed dissatisfaction with the way the Kuomintang had manipulated the elections of the National Assembly and of the Legislative Yuan, and threatened to organize the people for a bitter fight.

"Unfortunately, a dispute has come into existence over allocation of seats in the Legislative Yuan. The Kuomintang has time and again emphasized the fact that it is extremely difficult to carry out the plan of one political party surrendering seats to another, as if the Kuomintang has been the only party, which has given up its seats to the minority parties. However, as a matter of fact, in a number of regions, the Young China Party and the Democratic Socialist Party refrained from nominating their respective candidates so as to let the Kuomintang candidates run unchallenged.

"Take the second region in Hupeh for example. The Young China Party and the Democratic Socialist Party did not put up their candidates, thus enabling the five Kuomintang nominees to get elected according to plan. But the candidates put up by the minority parties in other provinces were oppressed and boycotted by the Kuomintang, the government or the local military authorities.

"It even happened that in some places where candidates of the Young China Party or of the Democratic Socialist Party polled more votes than the Kuomintang candidates, the Kuomintang-controlled election offices simply moved away the ballot boxes and put in more votes for their nominees. Often there were more votes than registered voters. This is really ridiculous in the extreme.

"At this time when the Legislative Yuan is about to meet, we take the opportunity to tell the Kuomintang gentlemen not to think of the Young China Party and the Democratic Socialist Party any more this time. We of the minority parties are willing to continue to be patient in order to serve the State. We will continue to enjoy the freedom of association, of assembly and of speech, as long as the Constitution permits. As parties out of office, we will endeavor to awaken and organize the people so that they will become more powerful supporters of the wise leader and of the democratic government."

The paper further disclosed that on the eve of the opening of the National Assembly, the minor parties had thought of refraining from attending the meetings of the National Assembly and they did not change their mind until the Kuomintang authorities stressed that it was "inadvisable to hold a one-party National Assembly without the participation of the Young China Party and the Democratic Socialist Party." In doing so, the minor parties placed the interest of the nation above party interests and honor, the paper said.

The Review's English Lesson—XXXI

Answers to the Test Paragraph; a Quotation and Answers to Readers' Questions

WE have received many answers to our test paragraph of a few weeks ago in which we asked you to define certain terms and then write us a letter telling us your answers. Using the same terms and some of the definitions we have received, we give you the following test. There are three alternative answers; but only one is correct. You will find the correct answers at the end of the lesson:

1. **"sugar-coated tone of voice"**—(1) flattering tone of voice; (2) deceptively sweet tone of voice which disguises not-so-sweet feelings or motives; (3) high-pitched way of speaking.
2. **"the new wrinkles" of his plan**—(1) tips; (2) new principles; (3) new aspects.
3. **"a walkout"**—(1) strike; (2) a new dance step; (3) a strike by only the foremen of a plant.
4. **"given the green light"**—(1) offered bright prospects; (2) granted new hopes; (3) given permission to act.
5. **"the eleventh hour"**—(1) the last crisis; (2) at the last moment; (3) after the crisis has passed.
6. **"key congressional leaders"** — (1) chief government figures; (2) members of the Committee on Foreign Relations: (3) those members of the House or Senate who are vitally important in forming or effecting government decisions.
7. **"the framing of such a plan"**—(1) organization of a plan; (2) the shaping or fashioning of a plan; (3) to falsely devise a plan.
8. **in the light of"**—(1) regarding; (2) by the expression of; (3) in relation to certain other factors.
9. **"I took the occasion"**—(1) had the good chance; (2) grasped the opportunity; (3) asserted.
10. **"to state flatly"**—(1) speak out; (2) speak in a loud tone of voice; (3) speak bluntly.
11. **"fritter away"**—(1) waste; (2) act slowly; (3) act dishonestly.
12. **"working agreement"**—(1) labor stipulation; (2) labor contract; (3) basis for concerted action.

* * *

Quotation by Sir John Harrington (1561-1612), an English poet:

"Treason doth never prosper; what's the reason?
Why, if it prosper, none dare call it treason."

It may be difficult for you to grasp immediately the meaning of this quotation. In a later issue we will print an explanation of its meaning. If you believe you can accurately paraphrase it, write to us and give us your answer.

ANSWERS TO READERS QUESTIONS:

"scallawag"—Can also be spelled "scallywag." Is an American colloquial word. Means a scamp or rascal. Came into use after the American Civil War to describe a white Southerner of the Reconstruction Period who acted for the Northern (Republican) administration which was inflicting severe punishment on the conquered South.

"carpet bagger" — A dishonest itinerant who takes unfair advantage of a disrupted or chaotic situation, e.g., in an area suffering the aftermath of war. Was also coined during the Reconstruction Period after the American Civil War. Northerners carrying carpet bags (an inexpensive type of luggage) traveled to the South after the Civil War and took advantage of the unsettled conditions and political corruption for their personal gain.

"a far cry"—very different from.

"to bolt the party" — to leave the party. Is usually used as a political term. Slang.

"to return to the fold" — to join again an organization which one has left. Think of it in relation to a sheep who strays from the other sheep and later returns to the group or fold.

"kayo" or "K. O."—to knock unconscious. Slang expression commonly used in the sport of boxing.

"Nothing can be more absurd than a teacher teaching others English while speaking no English himself at all."—This is your corrected version of a sentence that appeared in *The Review*. It does not improve the sentence you disagreed with and is not as well constructed as the original sentence. In your sentence you should omit "at all" or "himself." If you use both, you clutter up the sentence with extra words.

"Dutch," "Holland" and **"Netherlands"** — The Dutch are the people who live in the European country of Holland, which the Dutch people prefer to be called "The Netherlands," a name synonymous with the meaning of Holland.

"newshound"—reporter for a newspaper.

"boondoggling"—government planning or manipulating of an extremely bureaucratic nature. A term of derision.

"mud-slinging"—calling others insulting names.

ANSWERS TO TEST QUESTIONS

1 — 2	7 — 2
2 — 3	8 — 3
3 — 1	9 — 2
4 — 3	10 — 3
5 — 2	11 — 1
6 — 3	12 — 3

The big rice bowl

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